Seat No:_____   Enrollment No:_____

PARUL UNIVERSITY
FACULTY OF COMMERCE
B.Com (Hons) Winter 2019 – 20 Examination

Semester: 2   Date: 13/12/2019
Subject Code: 16100155   Time: 10:30 am to 1:00 pm
Subject Name: Micro Economics   Total Marks: 60

Instructions:
1. All questions are compulsory.
2. Figures to the right indicate full marks.
3. Make suitable assumptions wherever necessary.
4. Start new question on new page.

Q.1 Do as directed.

A) Multiple choice type questions.   (Each of one mark)   **(06)**
   1. In capital budgeting, a technique which is based upon discounted cash flow is classified as
      a) NPV   b) net future value method
      c) net capital budgeting method   d) net equity budgeting method
   2. Discounted Payback period is better than Payback period
      a) True   b) False

   3. NPV
      a) Net Present Value   b) Not Present Value
      c) Normal Present value   d) None of the above
   4. _____ is a market situation dominated by a single seller who has full control over the price.
      a) Perfect   b) Duopoly
      c) Monopoly   d) None of the above
   5. Oligopoly is a type of _____ market.
      a) Perfect   b) Imperfect
      c) Both a & b   d) None of the above
   6. It refers to charging of different prices from different consumers for different units of the
   same product.
      a) price diffenciation   b) price discrimination
      c) Both a & b   d) None of the above

B) Definitions / One-liners / Terms.   (Each of one mark)   **(06)**
   1. Cost of Capital
   2. Payback Period
   3. Welfare
   4. Utility
   5. Duopoly
   6. IRR

Q.2 Numerical / Short Note Questions. (Each of 04 mark)   **(12)**
   1. What is welfare economics?
   2. Explain How Oligopoly is different from the other markets?
   3. Why perfect competition is a price taker?

Q.3 Answer the following.   (Any Three)   **(18)**
   1. Explain Pareto-Optimality Criterion in detail.
   2. Explain what is Monopoly? Explain its Features in detail. Also Construct a diagram to
   explain MR & AR curve of monopoly.
   3. Explain the features of Oligopoly in detail. Also construct a diagram to show kinked demand
   curve of the oligopoly market.
   4. Merits & Demerits of Payback period.

Q.4 Answer the following.   (Any two)   **(18)**

1. The following details are available in respect of cashflow of the two projects X & Y

Year	X	Y
0	(8,00,000)	(9,00,000)
1	4,00,000	2,00,000
2	2,50,000	4,00,000
3	50,000	3,00,000
4	1,00,000	3,00,000
5	2,50,000	50,000

Compute payback period for X & Y, Also state which project would be accepted.
(NPV Factors: 1-0.9091, 2-0.8264, 3-0.7513, 4-0.6830, 5-0.6209)

2. A company is planning to replace its existing machinery. The new machinery will cost Rs 3,20,000 and have a life of 5 years. The new machine will yield annual cash revenue of Rs 5,00,000 and incur annual cash operating expenses of Rs 2,60,000. The estimated salvage of the new machine at the end of economic life is Rs 16,000. The existing machine if used foe the next 5 years is expected to generate annual cash revenue of Rs 4,00,000 and to involve annual cash expenses of Rs 2,80,000. The existing machine has a book value of Rs 80,000 and can be sold for Rs 40,000. If this machine is sold after 5 years, the salvage value of the existing machine will be 0. The company pays tax at 30%. Depreciation is written of at 25% on WDV basis, Compute the incremental cashflow of replacement decision.

3. The following are details about cash inflow and outlay of 2 projects.

	X	Y
Cost at the beginning of the year.	25000	50000
1	10000	20000
2	8000	15000
3	9000	16000
4	6000	10000
5	7000	15000

The cost of capital is 12%. Calculate NPV of the above mentioned project and state which project should be accepted.