

B.E.

Third Semester Examination, Dec.-2007

Economics (HUM-201-E)

Note : Attempt any *FIVE* questions. All questions carry equal marks.

Q. 1. Discuss the welfare concept of economics. Explain the role of economics in the areas of engineering and technology.

Ans. Material Welfare Definition : In the word of Marshall "Economics is a study in ordinary business of life; it examines the part of individual and social action which is most closely connected with the attainment and with use of material requisite of well being."

"The aim of political economy is the explanation of general causes an which the material welfare of human being dependent."

Feature :

- (i) Importance to the study of Man.
- (ii) Study of social Man.
- (iii) Ordinary business of life.
- (iv) Study of real Man.
- (v) Material requisites.
- (vi) Welfare.
- (vii) Money is the measure of material welfare.

Role of Economics in Area of Engineering and Technology : Economics plays an important role in engineering and technology by providing the framework for various systems. The role can be seen in the following ways :

- (i) Basis of planning.
- (ii) Input-output determination.
- (iii) Production function analysis.
- (iv) Productivity analysis.
- (v) Both in Micro as well in Macro level.
- (vi) Demand analysis.
- (vii) Cost analysis.

Q 2. What is Utility? Discuss the Law of diminishing marginal utility.

Ans. Utility : "Utility refer to the abstract quality whereby an object serve our purpose."

"Utility is quality of good to satisfy a want."

"Utility is the quality in commodities that makes individual want to buy them."

"Want satisfying power of the commodity is known as the utility."

Feature :

- (i) Utility is subjective.
- (ii) Utility is relative.

- (iii) Utility is not essentially useful.
- (iv) Utility is independent of morality.

Law of Diminishing Marginal Utility : "Additional benefit which a person derive from a given stock of a thing diminishes with every increase in the stock that the already has." "The more we have the things the less we want the additional increments of it or the more we want not to have additional increment in it."

"As consumer increases consumption of any one commodity, keeping constant the consumption of all other commodity, the marginal utility of the variable commodity must eventually decline."

Q. 3. What do you mean by Elasticity of demand? Discuss various degrees of elasticity of demand with suitable examples.

Ans. Elasticity of Demand : Elasticity of demand may be defined as percentage change in the quantity demanded divided by the percentage change in price.

Price elasticity of demand measures the responsiveness of the quantity demanded to the change in price.

Degree of Elasticity :

- (i) Perfectly elastic ($E = \infty$)
- (ii) Perfectly Inelastic ($E = 0$)
- (iii) Unit elastic ($E = 1$)
- (iv) More than unit elastic ($E > 1$)
- (v) Less than unit elastic ($E < 1$).

Q. 4. Discuss the following :

(a) Fixed Cost and Variable Cost.

(b) Average Cost and Marginal Cost.

Ans. (a) Fixed Cost : Fixed cost is the cost which may not change with the change in the volume of production. For example rent of building.

Variable Cost : Variable cost changes with the change in volume of production. For example cost of raw material.

(b) Average Cost : Average cost is the per unit cost, i.e. cost decided by output.

$$A.C. = \frac{\text{Cost}}{Q}$$

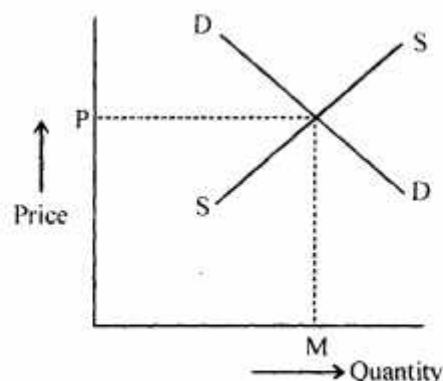
Marginal Cost : Marginal cost is the increase in the total cost when output is increased by one unit.

Q. 5. What is Perfect Competition? Discuss the determination of price and output under perfect competition.

Ans. Perfect Competition : The perfect competition is the market in which there are many firms selling identical products with no firm large enough relative to entire market to be able to influence market price."

The perfect competition is characterized by the presence of many firms. They sell identical product. The seller is price taker not price maker.

Price Output Determination Under Perfect Competition : We know that there is large number of firm under perfect competition. Firm is only a price taker and not price maker. Price is determined by the industry. Industry is a group of firm producing identical goods. The equilibrium price is determined at a point where the demand for and supply for the total industry are equal to each other.



Q. 6. Define Privatisation. Discuss merits and demerits of privatisation.

Ans. Privatisation : Privatisation is the general process of involving the private sector in the ownership or operation of state owned enterprises.

Privatisation refers to any process that results in the transfer of functions, activity, asset or organisation in whole or in part which is owned or centralized either directly or functions, activity, assets or organisation in whole or in part which is owned or controlled either directly or indirectly by a government to a non-government body generally speaking any change from public to private hands.

Merits of Privatisation :

- (i) Reduction in Economic burden.
- (ii) Increase in efficiency.
- (iii) Reduction in sense of irresponsibility.
- (iv) Scientific management.
- (v) Reduction in political interference.
- (vi) Encouragement to new investor.

Demerits :

- (i) Industrial sickness.
- (ii) Lack of social welfare.
- (iii) Class struggle.
- (iv) Increase in inequality.
- (v) Increase in unemployment.
- (vi) Ignore weaker section.

Q. 7. Discuss the following :

(a) Factors of production

(b) Factors effecting elasticity of demand.

Ans. (a) Factors of Production : "The sources of services which enter into the process of production are called the factors of production." There are certain factors of production :

- | | |
|-----------------|-------------------|
| (i) Land | (ii) Labour |
| (iii) Capital | (iv) Organisation |
| (v) Enterprise. | |

(v) Factor Effecting the Elasticity of Demand :

- (i) Nature of commodity.

- (ii) Availability of substitute.
- (iii) Goods with different uses.
- (iv) Postponement of use.
- (v) Income of consumer.
- (vi) Habit of consumer.
- (vii) Proportion of Income spent commodity.
- (ix) Time.
- (x) Joint demand.

Q. 8. Write short notes on any two of the following :

(a) W.T.O

(b) Law of Supply

(c) Opportunity Cost.

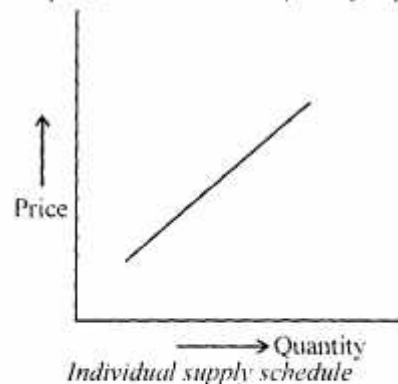
Ans. (a) W.T.O. (World Trade Organisation) : W.T.O. is a new globally recognised trade organisation with new name succeeding GATT on reviewed agreement and having a new visions and tougher enforcement power to promote international trade.

Objective of W.T.O. :

- (i) The primarily aim of W.T.O. is to implement the new world trade system as visualised in the agreement.
- (ii) To permote the world trade in a manner that benefits every country.
- (iii) To ensure that developing country secure a better balance in shaking of the advantage resulting from expansion of international trade. Corresponding to their developing need.

Scope of W.T.O. : Primarily GATT was conversed with the trade in goods which were mainly primary manufactured product. The general agreement of trade services is the first multilateral agreement on trade that has as its objective the progressive libralisation of trade in services. The agreement cover the trade in services. W.T.O. has much wider scope than GATT, as new area are included in agreement having implication for production process of good also.

(b) Law of Supply : The law of supply state that other thing being equal the higher the price the greater the quantity. Supplied or the lower the price, the smaller the quantity supplied.



(c) Opportunity Cost : The opportunity cost is the cost of next best alternative fore gave. It is also called alternative cost. Supposing a farmer can grow both wheat and gram on a farm. If on a form measuring one-hactere he only grow wheat he fore goes the production of gram. If the price of the quantity of gram that he foregoes is 1000 then the opportunity cost of graving will be Rs. 1000. Thus, the price of gram which farmer has to for go in order to produce wheat is called the opportunity cost of wheat.