

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 commoities 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.

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

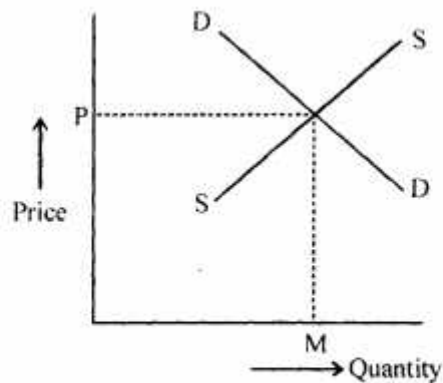
Marginal Cost : Marginal cost is the increase in the total cost when output is increased by one unit.

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, it is a 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 :

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

(v) Factor Effecting the Elasticity of Demand :

- (i) Nature of commodity.

