

Register No : ..... Name : .....



## SAINTGITS COLLEGE OF ENGINEERING KOTTAYAM, KERALA

(AN AUTONOMOUS COLLEGE AFFILIATED TO  
APJ ABDUL KALAM TECHNOLOGICAL UNIVERSITY, THIRUVANANTHAPURAM)

### FIRST SEMESTER MBA DEGREE EXAMINATION (S), JULY 2021

**Course Code:** 20MBA107  
**Course Name:** BUSINESS ECONOMICS  
**Max. Marks:** 60

**Duration :** 3 Hours

#### PART A

*(Answer all questions. Each question carries 2 marks)*

1. Differentiate micro and macro economics
2. Mention about latent demand
3. State about marginal costs
4. List the salient features of an oligopolistic market
5. What are the major phases of business cycle?

#### PART B

*(Answer any 3 questions. Each question carries 10 marks)*

6. Justify how the knowledge of economics and its principles helps managers in making effective decisions
7. Understanding of Law of Demand and Elasticity of Demand helps influence purchase behaviour of consumers – Validate this statement
8. One of the prime focuses of the discipline Economics is reduction of costs. Discuss the determinants of cost
9. Contrast how price and level of output are decided in the different types of market structures
10. Clarify how monetary and fiscal policies foster economic growth of a nation. Quote examples

#### PART C

*(Compulsory question, the question carries 20 marks)*

11. What effect does advertising have on the price of a good? On the one hand, advertising might make consumers view products as being more different than they otherwise would. If so, it would make markets less competitive and firm's demand curves less elastic, and this would lead firms to charge higher price. On the other hand, advertising might make it easier for consumers to find the firms offering the best prices. In this case, it would, make markets more competitive and firms' demand curves more elastic, and this would lead to lower prices.

## 252A3

In an article published in the Journal of Law and Economics in 1972, economist Lee Benham tested these two views of advertising. In the United States during 1960s, the various state governments had vastly different rules about advertising by optometrists. Some states allowed advertising for eyeglasses and eye examinations. Many states, however, prohibited it. For example, the Florida law read as follows:

“It is unlawful for any person, firm, or corporation to .....advertise either directly or indirectly by any means whatsoever any definite or indefinite price or credit terms on prescriptive or corrective lens, frames, complete prescriptive or corrective glasses, or any optometric service... This section is passed in the interest of public health, safety, and welfare and its provisions shall be liberally constructed to carry out its objects and purposes.”

Professional optometrists enthusiastically endorsed these restrictions on advertising. Behnam used the differences in state law as a natural experiment to test the two views of advertising. The results were striking. In those states that prohibited advertising, the average price paid for a pair of eyeglasses was \$33. In those states that did not restrict advertising, the average price was \$26. Thus, advertising reduced average prices by more than 20 percent. In the market for eyeglasses, advertising fosters competition and leads to lower prices for consumers.

- a. Should companies in a perfectly competitive market advertise? Justify your answer with solid reasons. (10 Marks)
- b. Discuss the costs and benefits of advertising form the customer point of view. (10 Marks)

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