

**Indian Maritime University**  
**(A Central University, Govt. of India)**  
**Supplementary Examinations – March/April 2025**

**Programme: BBA (LRE)**  
**Semester: First**  
**Subject Code: UG31T3102**  
**Subject: Principles of Business Economics**

Date: 04.03.2025

Max Marks: 70

Duration: 03 Hrs

Pass Marks: 35

General Instructions

- (i) All Sections (A, B & C) are to be attempted.
- (ii) Options are applicable **only** to **Section C**.

**Section A**

Choose the most appropriate answer from the options given for each question.  
Each question carries 01 Mark.

(10\*1= 10 Marks)

1. Market failure arises whenever the firm .....
  - a. makes loss
  - b. creates externalities
  - c. replaces machines with workers
  - d. reduces expenditure on research and development
2. Which among the following is the most appropriate statement related to production possibility frontier?
  - a. The main reason for the rightward shift of the production possibility curve is war
  - b. The main reason for the rightward shift of the production possibility curve is migration
  - c. The main reason for the rightward shift of the production possibility curve is skill development programmes
  - d. The main reason for the rightward shift of the production possibility curve is natural disasters
3. Which among the following is a case of distortion of incentives according to the concept of market failure?
  - a. Adverse selection
  - b. Moral hazard
  - c. Disembedded market
  - d. Monopoly power
4. From the following options, identify which one is NOT a condition of perfect competition?
  - a. Every firm is a price taker
  - b. Free entry and exit for firms
  - c. No governmental regulations

- d. Price is higher, output is lower
- 5. Which among the following is NOT a Pareto efficiency criterion?
  - a. Production efficiency
  - b. Output efficiency
  - c. Consumption efficiency
  - d. Exchange efficiency
- 6. A measure that indicates the sustainability of the firm in the long run
  - a. PV ratio
  - b. Contribution margin
  - c. Margin of safety
  - d. Break even point
- 7. Change in total utility (TU) resulting from the consumption of an additional unit of the commodity
  - a. Total utility
  - b. Marginal utility
  - c. Average utility
  - d. Incremental utility
- 8. When the product has a competitive product available in the market, then it is a .....
  - a. Joint product
  - b. Substitute product
  - c. Composite product
  - d. Complementary product
- 9. Name the unavoidable cost to be incurred even if the business is discontinued
  - a. Money cost
  - b. Real cost
  - c. Sunk cost
  - d. Opportunity cost
- 10. People would like to buy things that the others are buying without really making any rational choice.
  - a. Bandwagon effect
  - b. Information asymmetry
  - c. Case of Veblen goods
  - d. Case of Giffen goods

## **Section B**

Answer **all Five questions** of 02 Marks each

(5\*2= 10 Marks)

- 11. Explain the reasons behind the downward sloping nature of the demand curve.
- 12. At Rs.10, twenty units of product X was demanded. A fall in the price of X to Rs. 5 led to an increase in its demand to fifty units. Find out the price elasticity of demand for product X and interpret the result. How do you categorise product X in terms of its elasticity? (1+1 mark)
- 13. Distinguish between economies of scale and economies of scope. (1+1 mark)

14. Reason out the differences prevalent in wage rates?

15. Define Pareto optimality condition.

### **Section C**

Answer **any FIVE** out of the Seven Questions of 10 Marks each.

(5\*10= 50 Marks)

16. How does the concept of price elasticity of demand help a business organisation in the pricing decisions of its products?

17. Define Law of Demand (1 mark). State the assumptions of the Law of demand (2 marks) and exceptions to the law of demand (2 marks). Reason out the downward sloping nature of the demand curve (5 marks)?

18. Distinguish between Micro economics and Macroeconomics. Do you agree that an understanding of Macroeconomics is necessary for a firm while maximising its profit potentials? (5+5 marks)

19. Explain the four big questions of Economics. How does a firm, as an economic entity, find answers to these questions? (5+5 marks)

20. Describe the short run production function or the law of variable proportions.

21. How does a firm attain equilibrium under a perfectly competitive market?

22. Explain the Pareto optimality criterion and the three marginal conditions for the attainment of Pareto efficiency. (2 +8 marks)

-----All the best-----