INSTITUTE OF ACTUARIES OF INDIA

EXAMINATIONS

22nd May 2024

Subject CB2 – Business Economics

Time allowed: 3 Hours 15 Minutes (09.30 – 12.45 Hours)

Total Marks: 100

Q. 1) In a free market economy:

A. Economic decisions are taken by Central Authority
B. Economic Decisions are taken by individual households and firms with no Government intervention
C. Economic Decisions are taken partly by the Government and partly through the market
D. The Economy is associated with Socialist or Communist system **[1.5]**

Q. 2) Which of the following statements is false?

A. Change in technology doesn't affect the supply
B. Demand for goods is affected by income of the population
C. Demand for a particular good is affected by price of its substitute
D. Supply for goods is affected by Government policy **[1.5]**

Q. 3) Which of the following statement is true?

A. Price elasticity of demand will have a negative value
B. Price elasticity of supply will have a negative value
C. Income elasticity of demand for normal goods has a negative value
D. Income elasticity of demand for inferior goods has a positive value **[1.5]**

Q. 4) Brand A sold 40000 cycles at Rs 4000 each last year. This year it reduced the price to Rs 3600 and sold 48000 cycles. Assuming that there were no other changes affecting the market, what is the price elasticity of demand?

A. -1
B. -0.5
C. -4
D. -2 **[1.5]**

Q. 5) Assuming car and car insurance are complementary goods, a rise in car insurance premium:

A. Shifts the demand curve for cars to the right
B. Shifts the supply curve for cars to the right
C. Shifts the demand curve for cars to the left
D. Results in an increase in equilibrium price and quantity **[1.5]**

Q. 6) Which one of the following is false:

A. There are no long run fixed costs as all factors are variable in the long run
B. Long Run costs are influenced by Firm's location
C. Research and Development can affect costs in Very Short Run
D. The shape of the Total Variable Cost curve follows from the law of diminishing returns **[1.5]**

Q. 7) Which of the following is not a barrier to entry?

A. The cost to consumers of learning how to use a particular product
B. Low minimum efficient scale

C. Exploiting the benefits of large scale production
D. Obtaining control over raw materials **[1.5]**

Q. 8) Which of the following best describes the economic concept of Normal profit?

A. The level of profit a firm makes by setting marginal cost equal to marginal revenue
B. The level of profit needed to persuade a firm to stay in its current business in the long run
C. The level of profit firms would tend to make under normal conditions of trade
D. The level of profit made by a typical firm in an industry **[1.5]**

Q. 9) In a perfectly competitive market:

A. Supernormal profits can persist in the long term
B. There are substantive economies of scale
C. The short run equilibrium for the firm is where the price is equal to the marginal cost
D. Firms are willing to spend on Research and Development **[1.5]**

Q. 10) Which of the following is an example of Oligopoly?

I. Supermarkets
II. Prescription drug produced under a Patent
III. Restaurants
IV. Retail banking

A. I and II
B. I and III
C. III and IV
D. I and IV **[1.5]**

Q. 11) A firm can charge discriminatory prices when:

A. When the markets are inseparable
B. Demand elasticity is identical in each market
C. Demand elasticity is different in each market
D. In a perfectly competitive market **[1.5]**

Q. 12) Which of the following is an example of third-degree price discrimination:

A. Buy-one-get-one-free offer
B. Use of coupons to buy goods at a lower price
C. Lower price for Supermarket’s own brand of products
D. Discounts to first time users **[1.5]**

Q. 13) Once the firm observes that its rival has broken some agreed behaviour it will never cooperate with them ever again. This is a description of which type of strategy?

A. Dominant Strategy
B. Trigger Strategy
C. Hit and Run Strategy
D. Maxi min strategy

[1.5]

Q. 14) Compared to perfect competition, monopolistic competition will typically lead to (if both have the same Long Run Average Cost Curve):

I. Slightly higher prices
II. More efficient production
III. An output level lower than the optimal level of output
IV. Benefit to consumers by way of variety of products

Which of the above statements are true?

A. I and IV
B. II and III
C. III and IV
D. I, III and IV **[1.5]**

Q. 15) Which off the following is an example of restrictive practices:

A. Horizontal price fixing
B. Market sharing
C. Bid rigging
D. All of the Above **[1.5]**

Q. 16) Which of the following is interventionist supply side policy?

A. Reducing Government expenditure as a proportion of GDP
B. Reduction in welfare benefits
C. Deregulation
D. Nationalization

[1.5]

Q. 17) International trade multiplier refers to:

A. The effect on national income in Country B of a change in inflation of Country A
B. The effect on national income in Country B of a change in interest rates of Country A
C. The effect on imports or exports in Country B of a change in national income of Country A
D. The effect on national income in Country B of a change in exports or imports of Country A **[1.5]**

Q. 18) Which of the following is False:

A. A Country's terms of trade is determined by demand and supply of imports and exports and their respective elasticities.
B. The terms of trade give the price of exports relative to the price of imports.
C. As a country increasingly specializes, comparative advantage eventually increases.
D. Comparative advantage is related to competitive advantage. **[1.5]**

Q. 19) Which of the following is a macroeconomic objective?

A. Interest Rates
B. Exchange Rates
C. Fiscal Policy
D. Monetary policy **[1.5]**

Q. 20) A country's aggregate demand curve might shift to the right due to:

A. An increase in interest rates
B. A fall in exchange rates
C. A fall in Government expenditure
D. None of the above **[1.5]**

Q. 21) Under fixed exchange rates:

A. Monetary policy will be very effective
B. Both monetary and fiscal policy will be effective
C. Fiscal policy will be more effective than monetary policy
D. Both monetary and fiscal policy will not be effective **[1.5]**

Q. 22) The monetary base is 400 units and the broad money supply is 1000 units. Assuming that the money multiplier and the bank deposits multiplier are equal in value, what is the liquidity ratio of the banking system?

A. 0.25
B. 0.4
C. 4
D. 2.5 **[1.5]**

Q. 23) Which of the following is true:

A. Demand pull inflation occurs when there are continuous rightward shifts in AD curve
B. Cost push inflation occurs when there are continuous rightward shifts in AD curve
C. Demand pull inflation occurs when there are continuous upward shifts in AS curve
D. None of the above **[1.5]**

Q. 24) Which of the below statements are true:

I. Adaptive expectations are based on current information
II. Rational expectations are based on current information
III. Adaptive expectations are based on past information
IV. Rational expectations are based on past information

A. I only
B. II only
C. I and IV
D. II and III **[1.5]**

Q. 25) Discretionary demand management policy is preferred to a rule-based policy when:

I. The economy proves to be inherently stable
II. The economy proves to be inherently unstable
III. There are no frequent large shocks to the economy
IV. There are frequent large shocks to the economy

Which of the above statement is/are true?

A. I and III

B. II and III
C. II and IV
D. IV only **[1.5]**

Q. 26) Possible causes of the financial crisis in 2008 include all of the following except:

A. The increase in subprime debt
B. The increased use of wholesale lending by the banks
C. Moral hazard
D. Counter cyclical bank lending **[1.5]**

Q. 27) A firm's total revenue and total cost for each of the quantities is given below

Quantity	Total Revenue	Total Cost
1	50	35
2	100	65
3	150	95
4	200	160

At what quantity of output is the profit maximized?

A. 1
B. 2
C. 3
D. 4 **[1.5]**

Q. 28) Real GDP is the value of:

A. Current output measured at current prices
B. Current output measured at base year prices
C. Base year output measured at current prices
D. None of the above **[1.5]**

Q. 29) Define the following terms:

i) Adverse selection (1)

ii) Law of diminishing marginal utility (1)

iii) Endowment effect (1)

iv) Indifference curve (1)
[4]

Q. 30) What are economies of scale, and how do they manifest in the operations of Mr. X's Food Processing plant? Provide specific examples of how economies of scale can arise within the factory. **[6]**

Q. 31) Discuss the assumptions for a perfectly competitive market. **[4]**

Q. 32) What type of market exists in Country X where cancer drugs are patented and sold exclusively by a single pharmaceutical company? Describe the characteristics and features of this market type. **[5]**

Q. 33) Define Full-Range pricing. Explain the reasons for using Full Range pricing with a suitable example from the insurance sector. **[5]**

Q. 34)

i) Explain what is meant by the Pareto optimum level of output and explain the condition for Pareto optimality. (4)

ii) Also explain whether a monopolist produces at the Pareto optimum level of output. (2)

[6]

Q. 35) What are the contrasting perspectives of New Classical and Keynesian economics regarding demand-side and supply-side policies? **[3]**

Q. 36)

i) What is circular flow of income? (2)

ii) State the condition for equilibrium in this circular flow, also define the terms used for depicting this equilibrium. (2)

iii) Define Gross Domestic Product (GDP) and the three ways of measuring GDP. (4)

iv) The marginal propensity to consume domestically produced goods is 0.75 and the Government increases the public spending by 100 million, how would Keynesian analysis predict the total change in national income? (2)

[10]

Q. 37)

i) What is secondary marketing? Explain, with suitable examples. (2)

ii) Discuss the risks associated with such secondary marketing for banks. (2)

[4]

Q. 38) Explain the rationale for using monetary policy to control inflation and the main criticism against this theory. **[4]**

Q. 39)

i) List the market-oriented supply side policies that are generally adopted by Governments. (3)

ii) A Government is considering a public-private partnership (PPP) to develop an airport, where a private contractor would be selected to design, build, and operate the airport. In exchange, the Government would make rent payments to the contractor for the use of the airport infrastructure.
Discuss the advantages and disadvantages of this proposal. (4)

[7]

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