

Indian Institute of Technology
Mid-Autumn Semester Examination 2018-2019

Subject Name: **Business Environment and Policy**
Time: **2 hours**

Subject No. **HS60063**
Full Marks: **30**
No of Students: **76**

Answer all the Questions
(No queries will be entertained during examination)

1. Explain the concept of monopolistic competition with a necessary example. Why does production process in monopolistic competitive market matter after all? Substantiate it. (Mark: 3+3=6).
2. Identify the underlying conditions at which a shutdown of production process becomes possible for the perfect competitive market. Why does a complete shutdown of short-run production process under perfect competitive market prove to be very costly for a growing economy? Explain! (Mark: 3+3=6).
3. It is often true that the large firm will have an advantage in the production and price-leadership decisions whose production and price-leadership are characterized by sizeable economies of scale and homogenous product under the oligopoly market. Is there any possibility for the small firm to accept the price-leadership position of large firm under oligopoly industry? Provide your graphical understanding with necessary justifications. (Mark: 1.5+1.5=3).
4. Discuss the assumptions of perfect competitive market. Why does marginal revenue (MR) always equal to average revenue (AR) under perfect competitive market? Is it healthy for the profit-adjusted firms working under perfect competitive industry? (Mark: 1+3+1=5).
5. Explain the master objectives of competitive firms; discuss with examples and graphical presentation how firms will respond to the price inelasticity of demand under both the perfect competitive and monopoly markets. (Mark: 1+3=4).
6. Discuss the following: (Mark: 2)
 - a. Explain the implications of $AR=MR$ ($e/e-1$) for the profitable operation of perfect competitive firm. (Mark: 1)
 - b. Explain graphically the low-cost price leadership of the oligopoly market. (Mark: .05)
 - c. Discuss the price-leadership of dominant oligopoly firm. (Mark: .05)
7. Using the fundamental concept of monopolistic competitive market, explain whether firms with risk-adjusted profit are more sustainable in the long-run than the firms with output-adjusted. Is profit sustainable always sustainable for efficient business environment of growing industry in the long-run? (Mark: 2+2=4).

