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NATIONAL LAW UNIVERSITY, JODHPUR

End Term Examination August- December, 2025

Semester: MBA (Insurance) I Semester

Subject: Managerial Economics

Time: Three Hours

Maximum Marks: 100

- Instructions:*
1. Follow examination protocols
  2. Attempt any five questions
  3. Non- scientific calculators are allowed.

Q.1 (a) A dynamic entrepreneur introduces a new production method that significantly reduces costs and launches a unique product in the market. For a short period, the firm earns unusually high profits because competitors have not yet adopted the new technology. Over time, as other firms imitate the *innovation*, these profits begin to decline. Identify the theory of profit illustrated in the above situation and explain the economic reasoning behind it.

(b) Explain the circular flow of income in a four-sector economy, showing the interaction among these sectors and distinguishing between real flows and nominal flows in the economy.

**Marks (10+10=20)**

Q.2 (a) A sudden fall in crude oil prices reduces production costs for automobile manufacturers. As a result, car companies are able to produce and sell more cars at every price level. However, the demand for cars remains unchanged in the short run. Using demand-supply curves, show what will happen to the equilibrium price and quantity of cars?

(b) A consumer has Rs 24 with him, which he wants to spend on two goods X and Y. The prices of each unit of X and Y are Rs 2 and Rs 3, respectively. Marginal unit schedule of X and Y is given as:

Units	1	2	3	4	5	6
MU <sub>x</sub>	20	18	16	14	12	10
MU <sub>y</sub>	24	21	18	15	12	9

How many units of X and Y are purchased by the consumer so that his utility is maximum? State the underlying principle.

(c) Prove  $e = \frac{AR}{AR-MR}$ ; where  $e$  = elasticity of demand, AR is average revenue, and MR is marginal revenue.

**Marks (8+5+7=20)**

Q.3 Explain the long-run production function and describe the three types of returns to scale. Discuss the causes behind each stage and explain how the spacing between isoquants changes as the firm experiences increasing, constant, and decreasing returns to scale.

**Marks (20)**

Q.4 Several cafes operate in a busy urban neighbourhood. Each cafe sells coffee and snacks that are similar but slightly differentiated through brand names, ambience, and taste. In the short run, a few cafes earn profits by attracting loyal customers, but over time, new cafes open nearby, offering similar products and dividing the customer base.

- (a) Identify the market structure described in the scenario and explain its key characteristics.
- (b) Using suitable diagrams, explain the equilibrium of a firm in this market in the short run and the long run, highlighting how the profit position changes over time.
- (c) Briefly explain how price discrimination can occur under this market structure

**Marks ( 6+6+8=20)**

Q.5 (a) How do the provisioning of public goods and the problem of moral hazards lead to market failure? Discuss any two measures that can be used to correct these market failures.

- (b) Explain the Monte Carlo Simulation technique used in decision-making under uncertainty.

**Marks (15+5=20)**

Q.6. Discuss in detail the relationship between fiscal policy and inflation. Explain how government spending, taxation, and fiscal deficits influence inflationary trends, and evaluate the effectiveness and limitations of fiscal policy as a tool for controlling inflation in both developed and developing economies.

**Marks (20)**

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Midterm Examination - 2025

Semester: MBA- I Semester

Subject: Managerial Economics

Time: One hour and Thirty Minutes

Marks: 50

Instructions: 1. *Question Paper consists of Two Pages*2. *Non-scientific calculators are allowed*3. *No clarifications shall be sought during the examination*

Q.1 (a) Raj, an entrepreneur, started a boutique insurance consultancy that offers highly specialized solutions for emerging industries. His unique expertise allows him to identify profitable opportunities and create strategies that no other consultancy has attempted. As a result, his firm earns significantly higher profits than standard consultancies. Explain how Raj's exceptional skills are linked to the profits earned.

(b) An emerging economy introduces mandatory insurance for small businesses against property damage, fire, and theft. With protection in place, entrepreneurs are more willing to invest in new ventures, which stimulates production, creates jobs, and attracts foreign investment. Explain how insurance acts as a mechanism for risk mitigation and economic development in this system.

Marks (5+10=15)

Q2. (a) Recently, the GST on individual health insurance premiums was drastically reduced from 18% to 0%, encouraging more people to buy policies. At the same time, a minor regulatory change slightly increased administrative costs for insurers. Considering that the GST reduction has a much stronger impact than the regulatory cost increase, use demand and supply diagrams to illustrate how these two events would affect the overall market for health insurance policies, including the likely change in price and quantity.

(b) A consumer has a marginal rate of substitution (MRS) of pizza (X) for burger (Y) = 3. The price of pizza is ₹50 and the price of a burger is ₹25. Determine whether the consumer's current choice of goods is maximizing her satisfaction. If her choice is not optimal, explain using

indifference curve analysis whether she should increase or decrease her consumption of burgers.

**Marks (5+5=10)**

**Q3(a)** A consumer has ₹200 to spend on two goods, A and B. The price of good A is ₹20 per unit, and the price of good B is ₹10 per unit. The marginal utilities (MU) of good A and B for various units consumed are:

Units	MU <sub>A</sub>	MU <sub>B</sub>
1	100	50
2	80	40
3	60	30
4	40	20
5	20	10

Explaining the Equi-Marginal Principle, determine how many units of each good the consumer should purchase to maximize total utility within the budget.

(b) How the substitution effect and the income effect explain the law of demand.

**Marks (5+5=10)**

**Q.4** Answer the following Questions ( any two)

(a) Explain that a higher iso-utility curve represents a higher level of utility.

(b) Describe the three-sector circular flow of income and expenditure involving households, firms, and government. Support your answer with a neat diagram.

(c) Why do conventional economic theorists defend the profit maximization hypothesis?

**Marks (7.5+7.5=15)**