**Micro Economics & Macro Economics**

**Dec 2024 Examination**

**Q1: The COVID-19 pandemic of 2020 caused significant disruptions to international business operations because numerous firms relied on suppliers from different nations, notably China. Many companies used lean production methods and kept low inventories in order to cut costs. However, this made them susceptible to supply chain interruptions. For instance, worldwide supply lines for electronics, including parts for laptops and cell phones, were impacted when lockdowns forced Chinese facilities to close. The fact that a large portion of auto parts were made in China presented difficulties for auto makers as well, resulting in major global production halts.**

**What impact would the COVID-19 worldwide lockdowns have on Europe’s supply curves for consumer electronics and auto factories? Explain your observations about the aforementioned scenario, emphasizing the supply side and the shift in the supply curve.
(Note: You can make assumptions as per the requirement of the case.) (10 Marks)**

**Ans 1.**

**Introduction**

The COVID-19 pandemic in 2020 created unprecedented disruptions in global supply chains, particularly impacting industries heavily reliant on international suppliers, such as consumer electronics and the automotive sector. Europe, like many other regions, faced severe consequences as a result of lockdowns, especially in China, which is a major supplier of critical components. Lean production strategies, which emphasize minimal inventory to reduce costs, became a double-edged sword, leading to significant vulnerabilities when supply chains were interrupted. As a result, many European firms found themselves unable to source key parts, halting production and affecting availability in the market. This supply shock led to shifts in supply curves, causing both

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**Q2 (A): The London “black cab” taxis are amongst some of the most expensive in the world. They compete to some extent with minicabs, which tend to be cheaper. However, minicabs are not allowed to pick up customers off the street; they have to be booked in advance, and their drivers do not have to memorize a London street map. Minicabs operate in a more competitive market and require less of the drivers. Black cab (licensed) cab drivers must pass a background check and medical test and pay fees over 200 pounds. This may help to ensure that passengers are safe and drivers are accountable, but it also means that they have a monopoly on picking up people on the streets. Elaborate on the given market structure (Black cabs and Minicabs) and discuss the implications for markets with high barriers to entry. (5 Marks)**

**Ans 2A.**

**Introduction**

The London taxi market is an illustrative example of a market segmented by regulatory barriers, specifically in the contrast between "black cabs" and "minicabs." Black cabs, known for their iconic appearance and premium rates, hold exclusive rights to pick up customers off the street, a privilege secured through strict licensing requirements. Minicabs, though cheaper and less regulated, cannot legally pick up street passengers without prior booking. This structure, highlighting the impact of regulatory and economic barriers, provides insights into competitive dynamics and consumer

**Q2(B): The two main industries driving Zamland’s economy are manufacturing and agriculture. The government aims to optimize production in both areas, given its limited financial resources and workforce of ten thousand individuals. In order to improve economic well-being, a balance between agricultural produce and manufactured items is desired.
Based on resource allocation, the Zamland PPC (Production Possibility Curve) shows different production combinations for manufactured items and agricultural goods.**

**The PPC for Zamland illustrates various production combinations for agricultural goods and manufactured products based on resource allocation.**

|  |  |  |
| --- | --- | --- |
| **Production Combinations (Hypothetical Table)** | **Agricultural Goods (Units)** | **Manufactured Products (Units)** |
| **Point A** | **500** | **0** |
| **Point B** | **400** | **50** |
| **Point C** | **300** | **80** |
| **Point D** | **200** | **100** |
| **Point E** | **100** | **120** |
| **Point F** | **0** | **140** |

**Explain the concept of Production Possibility Curve and the scarcity in Zamland that is reflected in the production possibility curve in the given scenario. You are also required to share your views on the implications of operating inside the production possibility curve in Zamland and what does it suggest about resource utilization? (5 Marks)**

**Ans 2B.**

**Introduction**

The Production Possibility Curve (PPC) is an economic tool that illustrates the trade-offs and opportunity costs a country faces when allocating resources between different goods. In Zamland, the PPC shows the production possibilities between two vital industries: agriculture and manufacturing. With limited financial resources and a workforce of 10,000, Zamland must strategically balance these sectors to optimize economic output. Understanding the PPC allows insight into resource scarcity, efficient production, and the implications of resource allocation decisions on Zamland’s