

New

BA (Honours) Examination, 2022
Semester-I (CBCS)
Course: CC-1
(Introductory Microeconomics)

Time: Three hours

Full Marks: 60

Questions are of value as indicated in the margin
Answer two questions from each group

Group A

Answer **Question no 1** and **any one** from the rest of the questions in Group A

1. a. Sam spends Rs. 6/wk on orange juice and apple juice. Orange juice costs Rs2/cup while apple juice costs Rs1/cup. Sam views 1 cup of orange juice as a perfect substitute for 3 cups of apple juice. Find Sam's optimal consumption bundle of orange juice and apple juice each week. Suppose the price of apple juice rises to Rs2/cup, while the price of orange juice remains constant. How much additional income would Sam need to afford his original consumption bundle?

b. Explain why a consumer will often buy one bundle of goods even though he prefers another. (8+3)+4

2. a. Does a change in consumers' tastes lead to a movement along the demand curve or a shift in the demand curve? Does a change in price lead to movement along the demand curve or a shift in the demand curve?

b. Let the equations for the demand and supply curves of a particular commodity be $Q^d = 8096 - 3596P$ and $Q^s = 500 + 4000P$. Represent these curves graphically and solve for the equilibrium price and quantity.

b. Why does a reduction in the price of a good increase consumer surplus?

(3+2)+5+5

3. a. Explain the derivation of an Engel Curve from an income-consumption curve. What does an Engel curve for an inferior good look like?

b. Illustrate the primary difference between the Hicksian and Slutsky methods of decomposing the substitution and the income effect. (4+2)+9

P.T.O

Group B

Answer any *two* questions from the following:

4. (a) What is a production function? How does a long run production function differ from a short run production function?

(b) Isoquants can be convex, linear, or L-shaped. What does each of these shapes tell you about the nature of the production function? What does each of these shapes tell you about the MRTS?

(c) Do the following function, $Q = LK^2$, exhibit increasing, constant, or decreasing returns to scale?

(d) Explain the term “marginal rate of technical substitution”. What does a MRTS = 4 mean?
4+6+3+2

5. (a) What assumptions are necessary for a market to be perfectly competitive?

(b) Explain the short run and long run equilibrium of a competitive firm using suitable diagrams.
5+10

6. (a) A monopolist is producing at a point at which marginal cost exceeds marginal revenue. How should it adjust its output to increase profit?

(b) Why is there no market supply curve under conditions of monopoly?

(b) Why is there a social cost to monopoly power? If the gains to producers from monopoly power could be redistributed to consumers, would the social cost of monopoly power be eliminated? Explain briefly.
4+6+5

7. Critically explain Ricardian theory of rent. How does the modern theory of rent explain existence of rent in all factors of Production? What is quasi rent?

6+6+3
