

**B.A. (Honours) Examination, 2018**  
**Semester-I (CBCS)**  
**Economics**  
**Course: CC-1 (Core)**  
**(Introductory Microeconomics)**

**Time: Three Hours**

**Full Marks: 60**

Questions are of value as indicated in the margin  
Answer question no. 1 and another one from **Group-A** question and  
*any two* questions from **Group-B**

**Group-A**

1. (a) Suppose a newly released study shows that battery-powered toys harm a child's development and recommends that parents adjust their purchasing behaviour accordingly. Use diagrams to show the effect on price and quantity in each of the following markets,
  - (i) The market for battery powered toys.
  - (ii) The market for batteries.
  - (iii) The market for non-battery operated toys.
- (b) True or False: For a budget spent entirely on two goods, an increase in the price of one will necessarily decrease the consumption of both, unless at least one of the goods is an inferior good. Explain. (3+3+3)+6
2. The monthly market demand curve for calculators among engineering students is given by  $P = 100 - Q$ , where P is the price per calculator in dollars and Q is the number of calculators purchased per month. If the price is Rs. 30, how much revenue will calculator makers get each month? Find the price elasticity of demand for calculators. What should calculator makers do to increase revenue? 15
3. (a) Explain why a consumer often buys one bundles of good even though he prefers another.
- (b) Construct indifference curve for two goods which are: 7+(4+4)
  - (i) Perfect complements
  - (ii) Perfect substitutes

**Group-B**

4. What is a production function? How does a long-run production function differ from a short-run production function? What is the difference between production function and an isoquant? Explain why the marginal rate of technical substitution of labour for capital is likely to diminish as more and more labour is substituted for capital?  
When does an iso-quant become linear or L-shaped? 2+2+2+6+3=15

**P.T.O.**

(2)

5. What assumptions are necessary for a market to be perfectly competitive? Using diagram explain short-run equilibrium of a competitive firm. Why would a firm that incurs losses choose to produce rather than shut down? 4+8+3=15
  6. Explain 'ideal output' and excess capacity in the context of Monopolistic competition. 15
  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=15
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