

**B.A. (Honours) Examination, 2018**

**Semester-I**

**Economics**

**Course: H-1 (Core)**

**(Microeconomics-I)**

**(For Back Candidates)**

**Time: Three Hours**

**Full Marks: 40**

Questions are of value as indicated in the margin

Answer *any two* questions from each group from the following questions.

**Group-A**

1. (a) Use demand and supply curves to illustrate how each of the following events would affect the price of butter and quantity of butter bought and sold:
  - (i) an increase in the price of cheese
  - (ii) an increase in the price of milk
  - (iii) a decrease in average income levels
- (b) Suppose your budget is spent entirely on two goods: bread and butter. If bread is an inferior good, can butter be inferior as well? (2+2+2)+4
2. (a) True or False: The cross-price elasticity will always be positive.
- (b) Explain the derivation of an Engel Curve from an income-consumption curve. What does an Engel curve for an inferior good look like? 5+5
3. Explain the difference between each of the following terms:
  - (a) a price consumption curve and a demand curve.
  - (b) an individual demand curve and a market demand curve.
  - (c) An income effect and a substitution effect. 4+2+4
4. Graphically decompose the impact of a price increase into substitution effect and the income effect using both the Hicksian and the Slutsky methods. Assume the affected good is a normal good. 10

**Group-B**

5. What is the difference between a 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+4+4=10
  6. What assumptions are necessary for a market to be perfectly competitive? Using a diagram explain short-run equilibrium of a competitive firm. 4+6=10
  7. (a) Why are the iso-cost lines straight line?
  - (b) Using iso-cost lines show how a producer optimally allocates factors of production to produce a certain level of output. 4+6=10
  8. Critically explain Ricardian theory of rent. How does the modern theory of rent explain existence of rent in all factors of Production? 6+4=10
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