

B.A. (Honours) Examination, 2014

Semester – I

Economics

Paper – H-1

(Microeconomics-I)

Full Marks: 40

Time: 3 Hours

Questions are of value as indicated in the margin.

Answer **any four** questions.

1. (a) Explain why we *must* have a negatively sloped demand curve for 'normal' goods and why we *might* have a positively demand curve for 'inferior' goods. What is the condition that must hold for a demand curve to be positively sloped?
(b) Suppose we are considering a market with a positively sloped demand curve. Consider the following two cases
 - (i) the demand curve is steeper than the supply curve
 - (ii) the demand curve is flatter than the supply curve.If price is the only adjustment variable, discuss whether the market is stable in each of the above two cases. 6+4=10
2. What kind of goods are the following:
 - a) A good has negative income elasticity and negative algebraic value of own price elasticity.
 - b) Two goods have positive cross price elasticity.
 - c) Two goods have undefined MRS.
 - d) Two goods have constant MRS.
3. (a) When is the Marshallian demand curve (i) flatter and (ii) steeper than the Hicks-compensated demand curve and why?
(b) What do you understand by lexicographic preferences?
(c) What assumptions are necessary for deriving the standard indifference curve? 4+3+3=10
4. (a) From the isoquant map of a fixed coefficient production function with constant returns to scale, $Q = \min [L/a, K/b]$, derive the total product, marginal product and average product curves of labor.
(b) Explain why the expansion path for a Cobb-Douglas Production function is linear.
(c) Explain the difference between returns to scale and economies of scale. 5+2.5+2.5=10

P.T.O.

(2)

5. (a) Why is the LAC usually U-shaped?
(b) What is its nature if the firm uses constant returns to scale technology?
(c) Why is the SAC usually U-shaped?
(d) Can the SAC be U-shaped if firm uses constant returns to scale technology? 2.5×4=10
6. Derive the long run equilibrium conditions of a firm operating in a perfectly competitive market. Hence draw the long run supply curve. 6+4=10
7. (a) Explain the inefficiency and deadweight loss of monopoly. Illustrate with a diagram.
(b) Is there a supply curve in a monopolistic market? Explain your answer.
(c) What is natural monopoly? What price will be set by an authority regulating natural monopoly? 5+3+2=10
8. Suppose that the demand curve facing a monopolist has the equation: $p=500 + 25q$. Suppose also that the monopolist has a fixed average cost = Rs. 1550.
(a) What quantity will the firm produce if it is unable to discriminate?
(b) What quantity will it produce if it can practice perfect discrimination? 5+5=10
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