

**B.A. (Honours) Examination, 2014**

**Semester – III**

**Economics**

**Paper – H-5**

**(Microeconomics-II)**

**Time: 3 Hours**

**Full Marks: 40**

*Questions are of value as indicated in the margin.*

Answer **any four** questions.

1. Explain the relationship between the perceived demand curve and the proportionate demand curve under monopolistic competition. Which curve determines the firm's choice of output and price? Why must the two intersect at the equilibrium point?  
3+3+4=10
2. (a) What are the basic assumptions of Cournot model of oligopoly?  
(b) If the inverse demand function facing a duopoly is  $P = a - bQ$  (Where  $Q = Q_1 + Q_2$ , and  $Q_i$  is the output of  $i^{\text{th}}$  firm  $i=1,2$ ), what are Cournot equilibrium quantities if the marginal cost of firm-1 is  $m$  and that of firm-2 is  $(m+x)$ , where  $x > 0$ ? Which firm produces more and which has the higher profit?  
3+7=10
3. (a) Examine dominant firm price leadership model of oligopoly.  
(b) Comment on the issue of profit maximization for both the dominant firm and other small firms.  
7+3=10
4. (a) Discuss if there is any theoretical model of oligopoly which determines the locational equilibrium of competing firms.  
(b) Can you suggest any other locational equilibrium for both the firms where transpat cost would be minimized as a whole?  
6+4=10
5. In the context of an oligopoly model explain the conjecture of the kinked demand curve. Comment on the determination of equilibrium price in this model.  
4+6=10
6. (a) Consider the following game where there are two players A and B, endowed with three strategies denoted by  $A_1, A_2, A_3$  and  $B_1, B_2, B_3$  respectively. The pay-off matrix is for player A. Assuming this as a zero sum game construct the pay off matrix for player B, and find out the solution of the game.

	$B_1$	$B_2$	$B_3$
$A_1$	47	39	71
$A_2$	53	86	61
$A_3$	32	40	55

P.T.O.

(2)

- (b) Show that advertising is a dominant strategy for both the firms in the following table where different elements have usual interpretation. Explain why that set of strategies is a Nash-equilibrium. 5+5=10

		Firm 1	
		Don't advertise	Advertise
Firm 2	Don't advertise	2, 2	0, 3
	Advertise	3, 0	1, 1

(Profit in Rs crores)

7. (a) What do we mean when we say that a firm is a perfect competitor in the product and factor markets?
- (b) How does a firm decide whether or not to employ an additional unit of a factor?
- (c) Why does the firm's VMP schedule for a factor decline after a point? Why are we interested in the declining portion of the VMP schedule of a factor? 2+3+5=10
8. (a) Following Ricardian arguments examine (i) scarcity rent, and (ii) differential rent.
- (b) Explain how and why elasticity of supply influences (non)existence of rent. 3+4+3=10