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47A (MIC1)

[17–HDGKACRM–M1]

MA 1st Semester Exam., 2017

ECONOMICS

(MEC—01)

(Microeconomics—I)

Full Marks : 80

Time : 3 hours

The figures in the margin indicate full marks for the questions

1. Answer any *five* from the following questions (each within *50* words) : 2×5=10

(a) What is meant by consumer's surplus?

(b) What does product homogeneity under perfect competition imply?

(c) Distinguish between perfect competition and pure competition.

(d) Define excess capacity in the case of monopolistic competition.

(e) When does collusive oligopoly emerge?

(f) In the Cournot model of oligopoly, where there are two firms, how much of the market is supplied by each firm?

2. Answer any *three* from the following questions (each within *150* words) : 4×3=12

(a) What are the determinants of price elasticity of demand?

(b) Does the law of demand always hold good? Discuss.

(c) What assumptions underlie the model of bilateral monopoly?

(d) Discuss the major shortcomings of monopolistic competition.

3. Answer any *three* from the following questions (each within *250* words) : 6×3=18

(a) "An oligopoly firm believes that if it reduces the price of its product, the rival firms would follow and neutralize the expected gain from price reduction." Explain the statement with the help of Sweezy's kinked demand curve. 6

(b) Depict how the monopolist firm attains short-run equilibrium. Why is the monopoly price always higher than the price determined in the perfectly competitive market? 3+3=6

(c) What happens when a firm under perfect competition cannot recover its variable cost in the short run? Explain with the help of an appropriate figure. 6

(d) Why does the monopolistically competitive firm undertake selling costs? How may the firm determine its optimum level of selling costs? 2+4=6

4. Answer any *four* from the following questions (each within *500* words) : 10×4=40

(a) Explain the revealed preference theory. In what way is the revealed preference theory superior to the cardinal and ordinal approaches to the analysis of consumer behavior? 6+4=10

(b) Provide a suitable formula for the Constant Elasticity of Substitution (CES) production function. Determine that the CES production function is homogenous of degree one. Also show that the rate of technical substitution for this production function is dependent on the factor input ratio. 3+3+4=10

(c) Differentiate between fixed and variable costs. Derive the short-run average fixed cost, average variable cost, average cost and marginal cost curves from the total variable and total cost curves of the firm. 2+8=10

(d) What is price discrimination? With the help of a suitable example, show that price discrimination may be necessary for the existence of the industry and that this may be economically desirable. 3+7=10

(e) Under oligopoly, what are the main forms of price leadership? Illustrate with the help of a suitable diagram, how a dominant firm may set the market price in an oligopolistic market where there exist a number of firms selling an identical product. 4+6=10

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