PG Odd Semester (CBCS) Exam., December—2018

ECONOMICS

(1st Semester)

Course No. : ECOCC–101

(Micro Economic Analysis—I)

Full Marks : 70
Pass Marks : 28

Time : 3 hours

The figures in the margin indicate full marks for the questions

Answer **one** question from each Unit

UNIT—I

1. *(a)* Explain the slope of an indifference curve and derive it (mathematically).

(b) Show that the equilibrium condition of a consumer under both Marshallian Utility Analysis and Indifference Curve Analysis is the same. (2+4)+8=14

2. *(a)* Distinguish between direct utility function and indirect utility function. Derive Roy's identity and interpret the result.

(b) Illustrate the theory of lexicographical ordering. (3+6)+5=14

UNIT—II

3. What is economies of scale and how does it arise in a firm? How such economies influence the shape of long run average cost in a firm? 4+6+4=14

4. *(a)* Justify the existence of a 'flat stretch' in the modern theory cost curves.

(b) Show that Cobb-Douglas production is a special case of CES production function. 4+10=14

UNIT—III

5. *(a)* What is it that we cannot define the industry in monopolistic competition?

(b) Why does excess capacity arise in monopolistic competition? What is its economic significance?

(c) Discuss the nature of long run profits under monopolistic competition and derive the adjustment process which leads to the realization of such profits. 3+4+7=14

6. Distinguish among increasing cost, decreasing cost and constant cost industry. Discuss the factors which may lead to decreasing costs. Discuss the nature of the long run supply curve of a firm and industry under conditions of decreasing costs. 14

UNIT—IV

7. What is meant by full cost pricing principle? How will you use this principle to derive the equilibrium of a firm? Compare and construct the approach of full cost pricing with that of limit pricing model. 3+5+6=14

8. *(a)* Consider the following pay-off matrix where the payoffs are the profits or losses of two firms :

	Firm B		
Firm A		*Low Price*	*High Price*
	High Price	1, 1	3, –1
	Low Price	–1, 3	4, 2

Determine—

(i) whether firm *A* has a dominant strategy;

(ii) whether firm *B* has a dominant strategy.

(iii) the optional strategy of each firm;

(iv) the Nash equilibrium, if there is any.

(b) What do you understand by 'satisficing behaviour'? How does it differ an alternative approach to the process of price determination as compared to neo-classical theory? (2+2+2+2)+(2+4)=14

UNIT—V

9. What is 'expected utility'? Explain how von Neumann and Morgenstern used this concept to deal with an uncertain situation. 4+10=14

10. *(a)* For an utility function $u(y)$ $100y$ $10y^2$, suppose you are left with two situations *(i)* y 30 and y 50 with probability $\frac{1}{2}$ each and *(ii)* y 40 with certainty. Which one would you select?

(b) Define cost of risk. How can the cost of risk be reduced by risk pooling and risk spreading? 5+(3+3+3)=14

★ ★ ★