nstructions for Candidates

Write your Roll No. on the top immediately on receipt of this question paper.

Question No. 1 is compulsory, attempt any 6 from remaining.

Illustrate your answer with suitable diagrams, whenever required.

All parts of each question must be done together.

Suppose two identical firms produces widgets and they are the only firms in the market. Their costs are given by

$C_1 = 30Q_1$ and $C_2 = 30Q_2$, where Q_1 is the output of Firm 1 and Q_2 of the output of Firm 2.

Price is determined by the following demand curve :

$P = 150 - Q$ where $Q = Q_1 + Q_2$

(a) Find the Cournot Nash equilibrium. Calculate profits of each firm at this equilibrium. (5)

(b) Suppose two firms collude to maximise *joint profits*. How many widgets will be produced? Calculate each firm's profits. (5)

(c) Explain dominant strategy using pay off matrix. (5)

2. Explain the Nash equilibrium when firms are competing with respect to price. Why is the equilibrium stable? Why don't the firm raise prices to the level that maximises there joint profits? (10)

3. Why does price leadership sometimes evolve in oligopolistic markets? Explain how the price leader determines a profit maximising price. (10)

4. Why the market demand for an input is not the simple horizontal summation of demand curves of the individual? Explain using diagrams. (10)

5. Write short

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(b) Monopoli

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Write short notes on the following :   (5×2)

(a) Quasi l

(b) Monopolistic Exploitation

Assume for **two** persons (A & B) and goods (1 & 2)

– Supply is greater than demand for good 1.

– Demand is greater than supply for good 2.

Does the allocation satisfy efficiency (given that both A & B have convex indifference curves). Is there any way to make both better off?

        (10)

"Ordinary monopoly results in inefficient equilibrium while discriminating monopoly results in efficient equilibrium." Explain using suitable diagrams.   (10)

"There is no ideal way to aggregate individual preferences into social preferences." Explain using example. Does Arrow Impossibility Theorem endorse the same?

        (10)

9. Explain the difference between Adverse Selection and Mo[r]
Hazard in the Insurance Market? Can one exist without [the]
other.   (1