

Question bank

Course Name: B.A (Hons) Business Economics

Paper Name: Micro economics 2 and its applications

Paper – C-3

Semester: 2nd

1. Explain the meaning of 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 joint profits?
2. What lead to Kink in a Demand curve? How does this kink explain rigidity of price.
3. Differentiate between Economic Rent and Quasi Rent using diagrams.
4. "When a monopolistic union bargains with a monopsonistic employer, the wage rate depends on the nature of bargaining process". Explain with the support of diagram.
5. Why does price leadership sometimes evolve in oligopolistic markets? Explain how the price leader determines a profit maximising price.
6. Let there be two firms which produce output under zero cost of production. The market demand function is $P = 48 - Q$ where Q is the production of Firm1 and Firm2. Calculate equilibrium output and price under stackelberg's model.
7. Explain the factor market with the monopsony power using appropriate diagram. State the factors due to which monopsony power arises.
8. Derive Supply curve of inputs in a competitive factor market. Can the curve be backward bending? Explain.
9. 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. With the help of appropriate diagram explain Pareto efficient allocation which is not equilibrium.

11. Suppose two identical firms produce 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.
 - b) Suppose two firms collude to maximise joint profits. How many widgets will be produced? Calculate each firm's profits.
12. "An allocation that maximizes a welfare function must be Pareto efficient." Explain with the help of a diagram.
13. Can adverse selection lead to market failure. Explain with examples.
14. Describe some inefficiencies that can occur when resources are common property rather than privately owned. Explain with examples.
15. What are public goods? How is the efficient level of provision of public goods determined.
16. In what circumstances the "principal agent problem" is created and how do owners deal with the problem.
17. What is the difference between cooperative game and non-cooperative game. Give the appropriate examples of each.
18. "There is no ideal way to aggregate individual preferences into social preferences". Explain Arrow's Impossibility theorem in the light of above statement.
19. What are the characteristics of the Public goods? What do you understand by free rider problem.
20. What will be the role of trade union if the labor market is monopsonistic rather than competitive? Would trade union activity be for the betterment of the entire labor force
21. Two firms are in the chocolate market. Each firm can choose to go for the high end of the market (high quality) or low end (low quality). Resulting profits are given by the following payoff matrix.

		Firm 2	
		Low	High
Firm 1	Low	-20, -30	900,600
	High	100,800	50,50

- I. Find the Nash Equilibria (if any).
- II. If the managers of both firms are conservative and each follows a maximin strategy, what will be the outcome of the game?