

Paper Name: Micro Economics and applications - 1(C-1)

Sem

ester:1st

Assignment Questions

1. “Income tax is better than the quantity tax”. Elaborate the statement with the help of algebraic approach and diagram.
2. What is the Satiation point? Explain with the help of indifference curves and mark out the interval where both goods are bad, both goods are good and one is good and other is bad.
3. How is Slutsky approach different from the Hicksian approach for a normal and giffen good? Explain it with the help of diagrams
4. Check from the following expenditure information whether WARP is satisfied or violated

Observations	P1	P2	X1	X2
1	6	3	6	6
2	5	5	10	8
3	4	7	16	0

Test Questions

1. Explain the Strong Axiom of Revealed Preference (SARP). Is it necessary and sufficient condition for the optimising behaviour?
2. Define Compensated Demand curve. Derive the same by differentiating amongst Marshallian, Hicksian and Slutsky approaches.
3. Write short notes on the following
 - a) Numeraire
 - b) WARP
 - c) Revealed preference theory
4. Use indifference curve and utility function to explain cobb douglas and quasi linear functions..

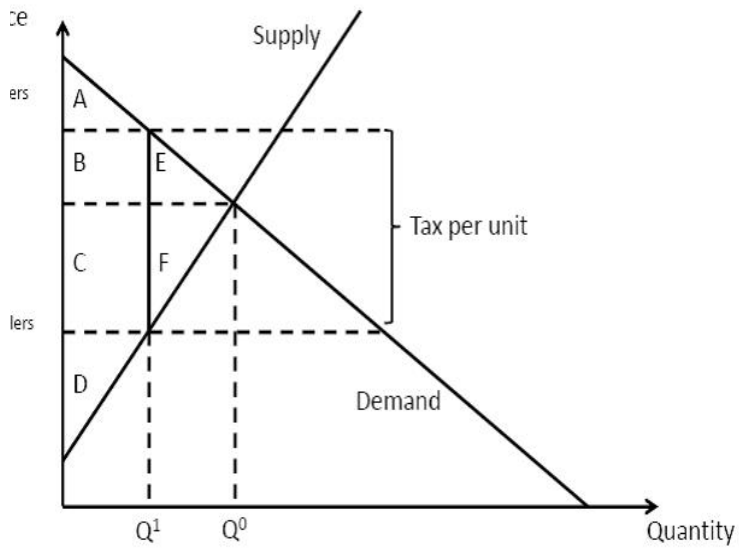
MULTIPLE CHOICE QUESTIONS

1. If an increase in consumer incomes leads to a decrease in the demand for camping equipment, then camping equipment is
 - a. a normal good.
 - b. none of these answers.
 - c. an inferior good.
 - d. a substitute good.
 - e. a complementary good.

2. Suppose there is an increase in both the supply and demand for personal computers. In the market for personal computers, we would expect
 - a. the equilibrium quantity to rise and the equilibrium price to rise.
 - b. the equilibrium quantity to rise and the equilibrium price to fall.
 - c. the equilibrium quantity to rise and the equilibrium price to remain constant.
 - d. the change in the equilibrium quantity to be ambiguous and the equilibrium price to be ambiguous.
 - e. the equilibrium quantity to rise and the change in the equilibrium price to be ambiguous.

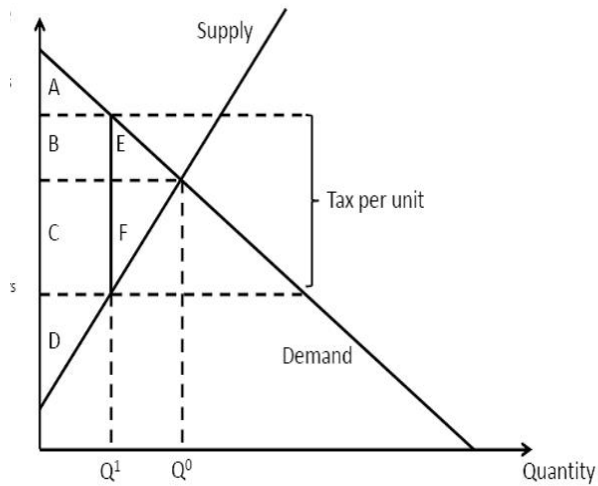
3. An inferior good is one for which an increase in income causes a(n)
 - a. decrease in supply.
 - b. increase in demand.
 - c. increase in supply.
 - d. decrease in demand.

4. Refer to the figure,. If there is no tax placed on the product in this market, producer surplus area



- $A + B + E$.
- D.
- $C + F$.
- $A + B + C + D$.
- $C + D + F$.

5. If there is no tax placed on the product in this market, total surplus is the area



- $B + C + E + F$.
- $E + F$.
- $A + B + C + D$.
- $A + B + C + D + E + F$.
- $A + D + E + F$.

6. If a production function exhibits diminishing marginal product, the slope of responding total-cost curve

- a. is linear (a straight line).
- b. is negative throughout its length
- c. becomes steeper as the quantity of output increases.
- d. becomes flatter as the quantity of output increases.

7. Which of the following is a variable cost in the short run?

- a. rent on the factory
- b. wages paid to factory labour
- c. interest payments on borrowed financial capital
- d. payment on the lease for factory equipment
- e. salaries paid to upper management

8. In long-run equilibrium in a competitive market, firms are operating at

- a. the minimum of their average-total-cost curves.
- b. all of these answers are correct.
- c. their efficient scale.
- d. zero economic profit.
- e. the intersection of marginal cost and marginal revenue.

9. If an input necessary for production is in limited supply so that an expansion of the industry raises costs for all existing firms in the market, then the long-run market supply for a good could be

- a. perfectly inelastic.
- b. perfectly elastic.
- c. upward sloping.
- d. downward sloping.

10. A grocery store should close at night if the

- a. variable costs of staying open are less than the total revenue due to staying open.
- b. total costs of staying open are less than the total revenue due to staying open.
- c. variable costs of staying open are greater than the total revenue due to staying open.
- d. total costs of staying open are greater than the total revenue due to staying open.

11. Which of the following statements about price discrimination is not true?

- a. Perfect price discrimination generates a deadweight loss.
- b. Price discrimination can raise economic welfare.
- c. Price discrimination requires that the seller be able to separate buyers according to their willingness to pay.
- d. Price discrimination increases a monopolist's profits.
- e. For a monopolist to engage in price discrimination, buyers must be unable to engage in arbitrage.

12. A monopoly is able to continue to generate economic profits in the long run because

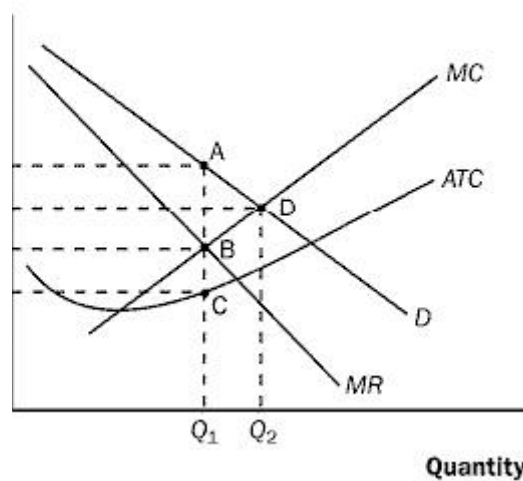
- a. there is some barrier to entry to that market.
- b. potential competitors sometimes don't notice the profits.
- c. the monopolist is financially powerful.
- d. antitrust laws eliminate competitors for a specified number of years.
- e. of all of the things described in these answers

13. Public ownership of natural monopolies

- a. tends to be inefficient.
- b. usually lowers the cost of production dramatically.
- c. creates synergies between the newly acquired firm and other government-owned companies.
- d. does none of the things described in these answers.

14. The profit-maximizing monopolist will choose the price and quantity represented by point

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- a. A.
- b. B.
- c. C.
- d. D.

e. none of these answers.

15 .The inefficiency associated with monopoly is due to

- a. underproduction of the good.
- b. the monopoly's profits.
- c. the monopoly's losses.
- d. overproduction of the good.

Answers- B,E,D,E,D,C,B,B,C,C,C,A,A,A,A