

## Question Bank

### B.A (Hons)Business economics

#### Ist Sem

#### Paper - C1 Micro Economics and Applications - 1

1. Explain the following by using suitable diagram to substantiate your answer
  - a) The Numeraire
  - b) Impact of lump sum tax and quantity tax on budget line
  - c) Free food stamps and subsidised food stamps
2. A Giffen good must be an inferior good but an inferior good is not necessarily and Giffen good, illustrate graphically.
3. Draw appropriate diagrams using following utility functions
  - a)  $u(x_1, x_2) = \min(ax_1, bx_2)$
  - b)  $u(x_1, x_2) = ax_1 + bx_2$
  - c)  $u(x_1, x_2) = x_1^{1/2} x_2^{1/2}$
4. Explain why do increasing, decreasing and constant returns to scale occur in production process.
  - (a) A consumer faces initially the budget line  $p_1x_1 + p_2x_2 = m$  what happens to budget line if
    - i. The price of good 2 increases but the price of good 1 and income remain constant.
    - ii. The price of good 1 doubles, the price of good 2 becomes 6 times larger and income becomes 4 times larger. Write down an equation for the new budget line in terms of the original prices and income.
    - iii. If the price of good 2 doubles and the price of good 1 triples, do the budget line become flatter or steeper or uncertain?
5. Define WARP. Check from the following expenditure information whether WARP is satisfied or violated:

Observations	$P_x$	$P_y$	X	Y
1	6	3	6	6

2	5	5	10	8
3	4	7	16	0

6. Discuss the relationship between MR, AR and elasticity of demand.
7. Define Production Possibility Curve (PPC) and explain the concept of opportunity cost by using PPC.
8. Distinguish between positive and normative statements with the help of examples
9. “Income tax is better than the quantity tax”. Elaborate the statement with the help of algebraic approach and diagram.
10. How is Slutsky approach different from Hicksian approach for a inferior good? Explain using suitable diagram.
11. Explain the operative stage, chosen by the producer, given the three stages of production.
12. Discuss the situations in which consumer attains boundry optimum.
13. Isoquants can be convex, linear or L – shaped. What does each of these shapes tell you about the nature of the production function? What does each of these shapes tell you about the MRTS?
14. Using diagrams differentiate between the impact of food subsidies in the form of food coupons and cash grant on the budget line.
15. Show the “bliss point”. What do indifference curves that surround this point imply.
16. Explain the Strong Axiom of Revealed Preference (SARP). Is it necessary and sufficient condition for the optimising behaviour?
17. Explain the utility function  $U = (X_1, X_2)$  in terms of perfect substitutes, perfect complementary goods, quasi linear and C-D utility functions . Draw the indifference curves and show their optimal points.
18. Using the tools of taxes, subsidies and rationing, explain how the consumer budget constraint is affected?
19. Explain Consumer surplus with the help of diagram. If the price is reduced, show the effect on well-being of the consumer.
20. Explain diagrammatically the reduction in supply in the world market for oil in short run and long run.
21. Derive Income Consumption Curve and Engel Curve for the perfect substitute goods.

22. Under competition price equals average total cost in the long run. If so, why do the firms produce?
23. Why do the firms enter the perfectly competitive industry when they know that in the long run economic profits will be zero.
24. If all the firms in a perfectly competitive industry have U shape cost curves, can the supply curve of the industry be (a) upward sloping or (b) downward sloping?
25. If firms in a competitive market are identical, the long run industry supply curve is horizontal. Explain, if the above statement is correct.
26. Explain how a discriminating monopolist allocates his output in two markets and charge different prices. Do you think it is beneficial to discriminate price in two markets? Why?
27. Derive the rule of thumb pricing under monopoly. Using the concept explain how a zero cost firm will determine its profit maximising output and price. Show it diagrammatically.
28. Define Monopoly power? How can the Lerner index of monopoly power be used to measure it?
29. In what sense monopolistic competition leads to excess capacity? Is excess capacity always desirable?
30. "Unlike a firm under pure competition, a monopolist does not have a supply curve". Discuss.
31. Consider a shift in demand under monopoly. In two separate diagrams, show that this can result in:
  - a) Different quantities being supplied at the same price.
  - b) Different prices supporting the same quantity.Show that a monopolist does not have a unique supply curve.
32. Derive the rule of thumb pricing under monopoly. Using the concept explain how a zero cost firm will determine its profit maximising output and price. Show it diagrammatically
33. If a firm's average cost curves are U shaped, why does its AVC curve achieve its minimum at a lower level of output than the ATC curve?