2021

ECONOMICS — HONOURS

Paper : CC-8

(Intermediate Microeconomics-II)

Full Marks : 65

The figures in the margin indicate full marks.

Candidates are required to give their answers in their own words as far as practicable.

Group - A

1. Answer ***any ten*** questions : 2×10

(a) What do you understand by third degree price discrimination?

(b) Define natural monopoly and give an example.

(c) Under what condition will a competitive firm with one fixed input and one variable input maximise profit?

(d) What is meant by negative externality? Give suitable example.

(e) Explain what do you mean by Pareto efficient allocation.

(f) What are the competitive features of monopolistic competitive market?

(g) Define conjectural variation in the determination of oligopoly market.

(h) What do you mean by mark up pricing?

(i) Explain the difference between adverse selection and moral hazard in insurance markets.

(j) How is elasticity related to market power?

(k) 'Collective bargaining can benefit labourers only in an imperfectly competitive labour market'. Explain.

(l) Define contract curve.

(m) Mention two reasons of market failure.

(n) If the monopolist's demand curve is P = 200 - 10q and his marginal cost is MC = 100 + 5q, what are the monopolist's profit maximising price and output?

(o) What do you mean by Free rider problem?

Group - B

2. Answer ***any three*** questions : 5×3

(a) How can the equilibrium of oligopolistic market be explained with the help of prisoner's Dilemma?

(b) Explain whether a monopolist seeking to maximise profit will operate in the elastic or inelastic part of the demand curve.

(c) How can the kinked demand curve model explain price rigidity?

(d) Explain whether monopolistic competition give rise to excess capacity.

(e) How will a monopolist using two variable inputs maximise profit? (Assume that the Input markets to be competitive)

Group - C

3. Answer ***any three*** questions :

(a) (i) Show that a monopolist selling in two markets will charge a higher price in the market where elasticity of demand is lower.

(ii) A monopolist can charge different prices in two separate markets whose demand and cost functions are as follows :

$p_1 = 80 - 5q_1$, $p_2 = 180 - 20q_2$ and $C = 20\ (q_1 + q_2)$

Find out the optimal price quantity combination in each market and his total profit level. If he cannot choose price discrimination and charges same prices in both markets, how does the solution change? Explain your answer. 4+3+3

(b) Explain monopolistic and monopsonistic exploitation of labour. Explain the role of trade union in this context. 3+3+4

(c) (i) In the Edgeworth Box diagram, explain why both consumers' Marginal Rate of Substitution are equal at every point on the contract curve.

(ii) In a two person two commodity pure exchange model, the utility functions are $U_1 = q_{11}\ ^{\alpha}q_{12}$ and $U_2 = q_{21}\ ^{\beta}q_{22}$ and given that $q_{11} + q_{21} = q_1\ ^{o}$ and $q_{12} + q_{22} = q_2\ ^{o}$. Derive the contract curve as an implicit function of q_{11} and q_{12}. 4+6

(d) (i) Explain why the long run equilibrium price and output of a monopolistically competitive firm will change if other firms enter or leave the industry. Use a diagram to explain your answer.

(ii) Suppose that two identical firms are there whose cost function are given by $C_1 = 30q_1$ and $C_2 = 30q_2$, where q_1 and q_2 are output of firm 1 and firm 2 respectively. The inverse demand function of firm's output is given by $p = 120 - q$ where $q = q_1 + q_2$. What are the firm's output in Nash equilibrium of the Cournot model? 5+5

(e) (i) Dose the soft drink industry conform more closely to monopolistic competition or Oligopoly? Explain your answer.

(ii) Show that Pareto Optimality conditions are satisfied under perfect competition. 5+5

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