2021

ECONOMICS — HONOURS

Paper : CC-1

(Introductory Microeconomics)

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.*

Section – A

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

   (a) "India is now facing recession"— Is it a positive sentence or normative sentence? Explain.

   (b) Do you agree with the statement "There is conflict between equity and efficiency"? Discuss.

   (c) Write some opportunity costs of studying Economics Honours.

   (d) With a single diagram, explain the difference between change in demand and change in quantity demanded.

   (e) Initially there was equilibrium. Now there is an increase in Supply. Explain how price mechanism will change price to get back equilibrium again.

   (f) What is the difference between free market and controlled market?

   (g) Which type of commodity it is — Park Street on 25th December? Explain.

   (h) Draw a demand curve with unit elasticity. Explain its shape.

   (i) What is the value of cross price elasticity of movie ticket with respect to textbook? Explain.

   (j) Which type of price control creates black market— Price ceiling or Price flooring?

   (k) What is the value of marginal utility when total utility attains maximum?

   (l) Say, $MU_x = 300$, $MU_y = 450$, $P_y = 150$. Find out the value of P_x.

   (m) Mention two properties of Indifference Curve.

   (n) Say the consumer is consuming A and B. The consumer is indifferent between (10, 15) and (12, 14) consumption combinations of A and B. Find the value of $MRS_{A.B}$.

   (o) Explain the difference between inferior and Giffen goods in terms of income effect and price effect.

Please Turn Over

Section – B

2. Write short notes on *any three* of the following : 5×3

   (a) Two countries can achieve gains from trade even if one of the countries has an absolute advantage in the production of all goods.

   (b) Marshallian stability of equilibrium.

   (c) Method of calculating point elasticity of demand on a linear demand curve.

   (d) Taxes on buyers and taxes on sellers is equivalent.

   (e) Consumer equilibrium using cardinal utility approach.

Section – C

Answer *any three* questions.

3. An economy consists of three workers : Ajay, Vijay and Sanjay. Each works 10 hours a day and can produce two services : mowing lawns and washing cars. In an hour, Ajay can either mow one lawn or wash one car ; Vijay can either mow one lawn or wash two cars ; and Sanjay can either mow two lawns or wash one car.

   (a) Calculate how much of each service is produced under the following circumstances, which we label A, B, C and D :

   All three spend all their time mowing lawns. (A)

   All three spend all their time washing cars. (B)

   All three spend half their time on each activity. (C)

   Ajay spends half his time on each activity, while Vijay only washes cars and Sanjay only mows lawns. (D)

   (b) Graph the production possibilities frontier for this economy. Using your answers to part a, identify points A, B, C and D on your graph.

   (c) Are any of the allocations calculated in part (a) inefficient? Explain. 4+4+2

4. (a) The demand function for movies is $Q_1 = 120 – p$ for college students and $Q_2 = 120 – 2p$ for other city residents, where Q is quantity demanded and p is price. Use a diagram to illustrate the city's market demand function for movies.

   (b) Use supply and demand diagrams to illustrate the effect of following events on the equilibrium price and quantity in the market for personal computers :

   (i) The price of computer chip falls.

   (ii) Colleges require students to have their own personal computers. 4+(3+3)

5. (a) If the Elasticity of demand for ice-cream were ½, how much would quantity demanded fall if decrease in supply raised the price by 10%?

   (b) Cups of tea and biscuits are complements. Suppose demand for tea is inelastic. A hurricane destroys half the tea plantation. Answer the following questions :

   (i) What happens to the price of a cup of tea?

   (ii) What happens to the price of biscuits?

   (iii) What happens to the total expenditure on cups of tea?

   (iv) What happens to the total expenditure on biscuits?   2+(2+2+2+2)

6. (a) Which causes a surplus of a good— a price ceiling or a price floor? Explain.

   (b) Suppose minimum wage law is in force and the minimum wage is above the equilibrium wage in the market for unskilled labour. Using a supply and demand diagram of the market for unskilled labour, show the market wage, the number of workers who are employed, and the number of workers who are unemployed. Also show the total wage payments to unskilled workers.

   (c) Now suppose there is an increase in the minimum wage. What effect would this increase in the minimum wage have on unemployment? Explain whether the change in unemployment depend on the elasticity of demand, the elasticity of supply, both elasticities, or neither?   3+4+3

7. Suppose a consumer consumes two goods X and Y such that the marginal rate of substitution for the two goods is everywhere equal to –1/2.

   (a) Draw his indifference map for X and Y.

   (b) If price of both X (Px) and price of Y (Py) are ₹ 10 per unit and the consumer's income is ₹ 1,000, then draw his budget constraint.

   (c) Using the above information, find the equilibrium consumption of X and Y for this consumer.

   (d) Show the decomposition of price effect into substitution effect and income effect for such goods.
                                                                                               2+2+2+4

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