

2022

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 is the value of the index of market power for a firm facing an infinitely elastic demand for its product?
- (b) Explain in brief whether a monopolist has a supply curve.
- (c) What is meant by second degree price discrimination?
- (d) Between a monopolist and a monopolistic competitor, who will be more interested in advertising?
- (e) Why does a monopolistically competitive firm face two demand curves for its product?
- (f) Does the Kinked Demand Curve model of oligopoly explain how the initial prices and quantities are arrived at?
- (g) In which kind of market can we see non-price competition?
- (h) What kinds of exploitation of labour can be seen in non-competitive markets?
- (i) Consider the contract curve in an Edge Worth-Bowley box diagram. Explain whether any point on the curve can be Pareto-superior to any other point on it.
- (j) What kind of economic improvement is called a Pareto improvement?
- (k) What is meant by market failure?
- (l) Is a public good always non-excludable?
- (m) What is the difference between positive externality and negative externality?
- (n) Describe in brief the concept of moral hazard.
- (o) What is meant by the Tragedy of the Commons?

Group - B

2. Answer *any three* questions :

5×3

- (a) Do you agree that monopolistic competition leads to excess capacity in the long run? Explain.

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- (b) What are corrective taxes? How do they protect the environment from pollution? 2+3
- (c) A monopolist can produce at a constant marginal and average cost of Rs. 5. The market demand curve faced by the producer is $Q = 53 - P$. Calculate the profit maximising price, output and the profit level. 2+2+1
- (d) Mita has 8 coke bottles and 2 sandwiches. Gita, on the other hand, has 2 coke bottles and 4 sandwiches. With these endowments, Mita's Marginal Rate of Substitution (MRS) of coke for sandwiches is 3 and that of Gita is equal to 1. Draw Edgeworth box diagram to show whether this allocation is efficient or not. Explain your answer.
- (e) How do you determine the net welfare cost to society from monopoly?

Group - C

3. Answer *any three* questions :

- (a) (i) What is collusive oligopoly?
 (ii) How can you relate Prisoners' Dilemma in the context of oligopoly?
 (iii) Do you consider the system of collusion to be stable? 2+3+5
- (b) (i) Explain the difference between adverse selection and moral hazard in insurance markets.
 (ii) Suppose the utility function be $u = WL$ and W be the total work hours, r be the wage rate per hour and T be the total time. Find the labour supply function and explain whether it follows the regular properties of labour supply function. 4+4+2
- (c) (i) A monopolist selling in two markets faces the demand curves $p_1 = 164 - 2q_1$ and $p_2 = 108 - 5q_2$ in the two markets. His marginal cost function is $MC = 8$. He has no fixed costs. If the monopolist can charge different prices in the two markets, what price will he charge in each? What will be the quantity sold in each market?
 (ii) Can a perfectly discriminating monopolist maximise profit along the inelastic portion of the demand curve? Why and why not? 5+(3+2)
- (d) (i) What is Pareto Efficient allocations? How is a contract curve related to such allocations?
 (ii) In an economy clothing and food are produced with the help of labour and capital. Suppose that $w = r = ₹ 4$ per hour. In clothing production MP_L^C / MP_K^C is supposed to be 2 and that in food production MP_L^F / MP_K^F is supposed to be $\frac{1}{2}$. Is the economy efficient in production? If not, how should it reallocate its resources? 2+2+2+4
- (e) (i) Assume, duopolist X producing a differentiated product, face an inverse demand function given by $p_1 = 100 - 2q_1 - q_2$ and have the cost function $C_1 = 2.5 q_1^2$. Assume duopolist Y wishes to maintain a market share of $\frac{1}{3}$. Find the optimal price, output and profit for duopolist X and output of duopolist Y.
 (ii) What are the conditions for successful operation of a cartel? 7+3