2022

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) Explain whether following sentences are positive or normative.

(i) India should participate in Football World Cup.

(ii) Covid-19 reduced GDP of India significantly.

(b) What is price mechanism?

(c) What does the negative sign of cross-price elasticity between two goods imply?

(d) How equilibrium output and price will change when a new technology is introduced?

(e) Which type of commodity is it?

(i) Movie hall which is playing a very popular movie.

(ii) Movie hall which is playing a movie, that people do not like.

(f) How does the elasticity of demand change with time?

(g) Which of the supply curves has more elasticity of supply— 'steeper one' or the 'flatter one' when both supply curves pass through the origin?

(h) If demand is unit elastic, explain how a decline in price will affect total revenue.

(i) Explain the concept of consumer surplus and producer surplus.

(j) When a price ceiling is imposed above the equilibrium price, will it be effective? Explain.

(k) With a minimum wage law, will labour employment increase?

(l) What is the shape of indifference curve when marginal rate of substitution between two commodities is increasing?

(m) What is budget line?

(n) What is Hicksian Substitution Effect?

(o) What will be the shape of Income Consumption Curve when one of the two commodities is inferior?

Section - B

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

(a) Importance of comparative advantage in determining trade pattern

(b) Law of diminishing marginal utility and the demand curve

(c) Elasticity and burden of tax incidence between buyers and sellers

(d) Public goods and common resources

(e) Inferior goods and Giffen goods.

Section - C

Answer ***any three*** questions.

3. Suppose that there are 10 million workers in India and that each of these workers can produce either 2 cars or 30 bales of raw cotton in a year.

(a) Draw India's production possibility frontier.

(b) What is the opportunity cost of producing a car in India?

(c) If India chooses to consume 10 million cars, how much cotton can it consume without trade? Label this point on the production possibility frontier.

(d) Now suppose that Bangladesh offers to buy 10 million cars from India in exchange for 20 bales of raw cotton per car. Give one consumption bundle of cotton and cars that this deal allows India to consume both the goods. Explain whether India should accept this deal or not. 2+2+2+4

4. (a) Using supply and demand diagrams, show the effect of the following events on the equilibrium price and quantity in the market for vaccine of corona virus.

(i) The cost of production of the vaccine falls.

(ii) There is a sudden rise in the number of corona virus infected patients.

(b) Explain the statement— "Markets are usually a good way to organize economic activity".

(c) Describe two situations where governments can improve market outcomes. (2+2)+3+3

5. The demand and supply curves of oranges are given by the equations:

$Q_d = 400 - 50P$

$Q_S = -25 + 12.5P$

where P is the price per unit of orange measured in rupees and Q is the quantity.

(a) Plot the demand and supply curves and find the market clearing price and quantity.

(b) Suppose the government imposes a price ceiling that is ₹ 2 below the equilibrium price. What will be the new market price? How many oranges will be sold now?

(c) Suppose the government imposes a tax of ₹ 2.50 per unit on sellers. Find the new equilibrium quantity and the price received by sellers and paid by buyers. 4+(1+2)+(1+2)

6. (a) Explain the relationship between slope of a demand curve and its price elasticity.

(b) Prove that a linear demand curve will have different elasticity on different points along the demand curve.

(c) Ritika always spends one-third of her income on clothing. What is her income elasticity and price elasticity of clothing demand? 2+4+4

7. (a) Comment on the shape of the indifference curve and marginal rate of substitution when two goods are

(i) perfect substitutes and

(ii) perfect complements.

(b) Suppose X and Y are normal goods and a consumer views them as imperfect substitutes.

Assuming her budget increases from M_1 to M_2 when prices of both the goods and her tastes to remain constant at their initial level, show diagrammatically her

(i) Income consumption curve

(ii) Impact on the demand curve for X

(iii) Engel curve for X. (2+2)+(2+2+2)

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