

2012

ECONOMICS

( Major )

Paper : 2·1

( Microeconomics—II )

Full Marks : 80

Time : 3 hours

*The figures in the margin indicate full marks  
for the questions*

1. Answer the following : 1×10=10

(a) What is the difference in assumption between perfect competition and monopolistic competition with regard to the output produced by the firm?

(b) How is the firm's proportionate demand curve obtained from the market demand curve in the monopolistic competition model developed by Chamberlin?

(c) In the context of welfare economics when is a change said to be Pareto efficient?

- (d) Mention a common measure that seeks to define the degree of inequality in the personal distribution of income.
- (e) Name the factor payment which is non-contractual in nature as against all other factor payments that are contractual.
- (f) State the Kaldor-Hicks compensation criterion for a welfare gain.
- (g) Under perfect competition in both product and factor markets, state the equilibrium condition for the demand of the single-variable input by the firm.
- (h) What is the difference between second-degree and third-degree price discrimination?
- (i) What is the present value of Rs  $M$  receivable in  $t$  years, if the rate of discount is given to be  $r$  percent?
- (j) When do the entire earnings of a factor of production constitute economic rent?

2. Answer the following :

2×5=10

- (a) Define economic rent. Can factors of production other than land earn rent?

1+

- (b) Given that perfect competition prevails in both the input and output markets. Show the equilibrium level of employment and wage rate. Also, show that fixing the minimum wage rate would lead to increased unemployment. 1+1
- (c) What is the impact of a lump sum tax on the monopolist's equilibrium output and price? 2
- (d) What is the relationship between the internal rate of return and the net present value? Determine the internal rate of return which involves on an investment expenditure of Rs 1,000 in year 0 that is expected to yield a one-time return of Rs 1,100 at the end of 1 year. 1+1
- (e) Why cannot the perfectly competitive firm maximise profits on the downward sloping segment of its marginal cost curve? 2

3. Answer any four of the following : 5×4=20

- (a) What are the three choice-related variables for a firm under monopolistic competition? What are selling expenses? 3+2

- (b) Elaborate on how David Ricardo explained the emergence of rent on different plots of land that differ in quality. 5
- (c) With the help of a suitable diagram, show the relationship between the monopolist's straight line demand curve and the total revenue curve. What is the absolute value of price elasticity of demand at the highest point on the total revenue curve? 4+1
- (d) State Pigou's dual criteria for maximising social welfare. 5
- (e) Differentiate between insurable risk and uninsurable risk. Which of the two gives rise to profits and why? 5
- (f) What is payback period? What is the payback period for a project with an initial cash outlay of Rs 1,00,000 and a constant annual cash inflow of Rs 2,00,000? 5

4. Answer any four of the following :  $10 \times 4 = 40$

- (a) State and explain the innovations theory of profits. Are the profits earned through each successful innovation permanent or temporary? Give reasons for your answer. 6+4

- (b) Outline the marginal productivity theory of distribution as proposed by Marshall. Also show the level of employment of the variable factor of production by a firm working under conditions of perfect competition in both product and factor markets. 5+5
- (c) Show that in the long-run equilibrium situation under monopolistic competition, the firm does not make any supernormal profits. What is the relationship between the LAC, proportionate demand curve and the perceived demand curve of the monopolistically competitive firm in the long-run equilibrium situation? 5+5
- (d) Determine the long-run supply curve for a constant cost industry in a perfectly competitive market model. 10
- (e) Why does the monopolist indulge in price discrimination? Examine the preconditions that must be satisfied for a monopolist to indulge in third-degree price discrimination. State the equilibrium condition for third-degree price discrimination by a monopolist operating in two markets. 2+3+5

- (f) In the context of the usual U-shaped long-run average cost curve, differentiate between the 'ideal' output and the output 'actually' produced by the monopolistically competitive firm when it is in long-run equilibrium. What is the difference between the two termed as? What explanation does Chamberlin offer for this difference? 5+2+3
- (g) For an economy with two factors, two commodities and two individuals, state and explain the condition for a Pareto optimum in (i) production; (ii) exchange; and (iii) in production and exchange simultaneously. 3+3+4
- (h) With the help of a diagram, show that the equilibrium wage rate is indeterminate in a labour market where a monopsonistic buyer of a specific kind of labour is faced by a monopolist trade union. Also show the range within which the wage rate is expected to settle due to bargaining between the labour union and the monopsonist. 7+3

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