

3 (Sem-2) ECO M 1

Bijni College Library
P.O.-Bijni, Dist.-Chirang
(B.T.A.D) Assam

2013

ECONOMICS

(Major)

Paper : 2.1

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) The demand curve facing the monopolist is a straight line cutting either axis. What is the price elasticity of demand at the point where the marginal revenue equals zero?
- (b) Why is the demand curve for the monopolistically competitive seller less elastic than the average revenue curve facing the firm under conditions of perfect competition?
- (c) Which form of price discrimination enables the seller to tap the entire consumer's surplus in a monopoly market?

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- (d) State the general formula for the future value of a single amount.
- (e) Differentiate between personal and functional distribution of income.
- (f) Why is the demand for factors of production termed derived demand?
- (g) Define economic rent associated with the employment of labour in a market where the demand and supply curves for labour take the usual shape.
- (h) Why is a firm's demand curve for a single variable factor more inelastic when it has monopoly power in the output market than when it produces for a competitive market?
- (i) What happens to the demand for an input, when the demand for a complementary input increases?
- (j) What is the Pareto criterion for optimal social welfare?

2. Answer the following :

2×5=10

- (a) Why is a firm's demand curve flatter than the market demand curve under monopolistic competition?
- (b) Mention the sources of monopoly power of firms working under conditions of imperfect competition.

- (c) Pigou held that society's welfare may be increased even while keeping national income constant. Why according to him was this feasible?
- (d) Why does money have 'time value'?
- (e) Give one measure of the 'average rate of return' (accounting rate of return) on investment for any project.

3. Answer any four of the following : $5 \times 4 = 20$

- (a) Determine the payback period and the 'present value' for a project with an initial cash outlay of Rs 10,00,000 and a constant annual inflow of Rs 4,00,000 at the end of the first and two subsequent years. Given that the applicable rate of discount is 10% per annum. $2+3=5$
- (b) Which are the two types of innovations identified by Schumpeter in his explanation regarding the existence of profits? Do such innovations lead to an unending source of profits for the innovator? $3+2=5$
- (c) The demand for labour by an industry is given by the straight line $L_d = 1200 - 10w$ and the supply of labour is given by $L_s = 20w$, where L stands for labour and w the wage rate. What is the equilibrium wage

rate and the quantity of labour hired?
What is the economic rent earned by
the workers?

3+2=5

(d) When does a change lead to an improvement in welfare according to the criterion put forward by Kaldor? How does Hicks restate Kaldor's compensation criterion?

2+3=5

(e) State the conditions of Pareto optimality for efficiency in exchange, efficiency in the allocation of factors of production and optimum degree of specialization in production in an economy.

(f) How can we derive the short-run supply curve of the firm working under conditions of perfect competition?

4. Answer any four of the following : 10×4=40

(a) Critically discuss the risk and uncertainty bearing theory of profit. 10

(b) The monopolist can sell in two markets A and B, where the market demand schedules are specified as $Q_a = 15 - P_a$ and $Q_b = 12.5 - .5P_b$. The monopolist total cost is $C = 5 + 3(Q_a + Q_b)$. Determine the price, output profits and marginal revenues in the two markets. Given that the firm acts as a price discriminator. 5+2+3=10

- (c) Compare the long-run equilibrium position of the representative firm under perfect competition and monopolistic competition pointing out the inefficiency in terms of deadweight loss and excess capacity in the case of the latter. Are the losses substantial and can they be justified in the real world? $6+4=10$
- (d) An employer without any monopsony power is faced by a monopolist labour union. Show the equilibrium level of employment, when the goal of the union is—
- (i) maximising the numbers of those employed;
 - (ii) maximising the total wage bill;
 - (iii) maximising the rent that its members earn. $3+3+4=10$
- (e) Why might the labour supply curve be backward bending? Explain the phenomenon taking into consideration the income and substitution effects. $4+6=10$
- (f) Mention the conditions that may give rise to monopoly. In this connection, explain how natural monopolies may come into existence. $6+4=10$
