5. (i) Explain the difference between short-run and long-run equilibrium of a firm under perfect competition. If the firm is in equilibrium in short-run, will it be in equilibrium in long-run also? (9)

(ii) Why do price rigidities arise in oligopolistic markets ? Explain price rigidity with the help of the 'kinked demand curve' model. (9)

6. Let the supply function be $Q = -20 + 40P$. With improvement in technology, it becomes $Q_1 = -10 + 40P$. Derive supply schedules and curves. How much good X does this producer supply at price of Rupee 2 before and after technological changes. (5)

Explain the returns to scale in production with the help of suitable graph. Explain how each of these might arise. Describe the concept of Isoquants. (7)

Is the price elasticity for 'Dove' soap greater than the price elasticity for bathing soap in general ? Give reasons and explain what you can analyse from this with the help of graph? (6)

7. Short notes on the following. Attempt any **3 :** (3×6)

(a) Derivation of LAC curve with the help of SAC curves.

(b) Welfare cost of monopoly.

(c) Explain the shapes and relationship of AFC, AVC, AC and MC.

(d) Excess capacity in monopolistic competition.

[This question paper contains 4 printed pages.]

Your Roll No..............

Sr. No. of Question Paper : 2099 **I**

Unique Paper Code : 2922071102

Name of the Paper : Microeconomics

Name of the Course : **BBA (FIA)**

Semester : I

Duration : 3 Hours Maximum Marks : 90

Instructions for Candidates

1. Write your Roll No. on the top immediately on receipt of this question paper.
2. Attemptany **5 (five)** questions from all.
3. **All** questions are of **18** Marks each.
4. Read the questions carefully.

1. State TRUE or FALSE with explanation and graphs. Attempt any 6. (3×6)

(a) If both demand and supply increase, the equilibrium price will definitely increase.

(b) The marginal rate of substitution (MRS) is constant along an indifference curve.

(c) Average total cost is always higher than marginal cost.

(d) In perfect competition, firms can differentiate their products to attract more customers.

(e) Two indifference curves intersect each other.

(f) A monopolist firm continue to produce in the short-run, even if it incurs losses.

(g) The substitution effect of a price change of a Giffen good is stronger than income effect.

2. (i) Calculate the cross price elasticity of demand between and comment on the relationship between them : (4)

(a) Wheat (X) and Rice (Y)

	Before		After	
	Price (rupee/kg)	Quantity (kg/week)	Price (rupee/kg)	Quantity (kg/week)
Rice (Y)	40	50	60	30
Wheat (X)	20	40	20	50

	Before		After	
	Price (rupee/kg)	Quantity (kg/week)	Price (rupee/kg)	Quantity (kg/week)
Curd (Z)	10	20	20	15
Wheat (X)	20	40	20	35

(4)

(ii) Starting from the position of consumer equilibrium show the substitution effect and income effect of a price reduction for a giffen good and inferior good. (10)

3. There are 1,000 identical individuals in the market for commodity X, each with a demand function given by $Qd_x = 12 - 2P_X$, and 100 identical producers of commodity X, each with a function given by $QS_X = 20P_X$.

(a) Find the market demand function and the market supply function for commodity X. (3)

(b) Find the market demand schedule and the market supply schedule of commodity X and from them find the equilibrium price and the equilibrium quantity. (5)

(c) Explain with the help of diagrams the impact of technological improvement on the market for X. (5)

(d) What happens to equilibrium price and equilibrium quantity if income of all consumers goes up ? Explain with diagrams. (5)

4. (i) Suppose a consumer spends his entire income on the purchase of two goods. Explain why a consumer will choose a market basket so that the MRS between two goods is equal to their price ratio. (9)

(ii) What do you mean by third degree price discrimination? When is it profitable for a monopolist do discriminate? How will he allocate his output in two markets & charge different price. (9)