Calculate :

(i) Price elasticity of demand. Also specify the type of elasticity. (6)

(ii) Graphically show the likely shape of demand curve based on this measure of elasticity. (6)

6. (i) The firm's expansion path conveys the same insights as its Long-Run Average Cost (LAC) curve. Explain this relationship in detail with the help of a suitable diagram. (9)

(ii) The Long-Run Average Cost (LAC) curve is formed by the envelope of the relevant segments of the Short-Run Average Cost (SAC) curves. Explain this concept in detail. (9)

[This question paper contains 4 printed pages.]

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

Sr. No. of Question Paper : 5067 **K**

Unique Paper Code : 2922101101

Name of the Paper : Microeconomics I

Name of the Course : **B.A. (Hons.) Business Economics**

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. **All** parts of each question must be done together.

3. Attempt **FIVE** questions in all.

4. Question No. **1** is compulsory.

1. Attempt any **THREE** of the following :

   (i) A price ceiling can lead to excess supply in the market. State true or false. Support your explanation with a diagram.

   (ii) Positive externalities result in under allocation of resources in the economy. State true or false. Support your answer with a diagram.

   (iii) Graphically explain the utility function $u(x_1, x_2) = ax_1 + bx_2$.

   (iv) Short note on strong axiom of revealed preference (SARP).

   (v) Explain the concept of economies of scope.

   (6×3=18)

2. (i) How would you define market failure? Explain the distinction between demand- side and supply-side market failures, and support your explanation with suitable diagrams. (12)

   (ii) Describe how consumer surplus and producer surplus arise in a market. (6)

3. (i) How is Engel's curve derived from a consumer's optimal choice, and what does it reveal about the relationship between income and quantity demanded for a normal good? Illustrate your answer with a diagram. (6)

   (ii) Explain Slutsky's approach to decomposing the effect of a price change into substitution and income effects. Support your answer with diagram. (12)

4. (i) Explain the utility function of a risk-lover individual? Illustrate your answer with a suitable diagram. (9)

   (ii) What makes the short-run expansion path inflexible? Support your explanation with an appropriate diagram. (9)

5. (a) Explain graphically how price elasticity is calculated along a linear curve. (6)

   (b) When price of a good is ₹7 per unit, a consumer buys 12 units.

   When price falls to ₹ 6 per unit he spends ₹ 72 on the good.