[This question paper contains 4 printed pages.]

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

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Sr. No. of Question Paper : 5177

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. **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 :–

(a) During peak evening hours in Mumbai, ride-hailing company "GoRide" is proposing to increase its fares by 40% to manage excess demand.

A recent consumer behaviour survey reveals the following data :

Income Group	Price Elasticity of Demand (Ed)	Income Elasticity of Demand (Ey)
Low-income commuters	–1.3	0.5
High-income commuters	–0.6	1.2

As a consultant to Go Ride will you recommend that Go ride takes this decision for both group of commuters? If not, what will your advice to the company be, assuming that Go Ride is aiming to increase its revenue through this change in prices. Give reasons to support your answer. (6)

(b) A consumer will always consume the quantity of a commodity that corresponds to the point of saturation. True or false. Explain. (6)

(c) A monopolist is producing at a point where marginal cost is less than marginal revenue. How should this firm adjust it's output to increase profits. Give reasons for your answer. (6)

(d) Average variable cost and average cost reach their minimum at the same level of output. True or False. Explain. (6)

(e) If price exceeds average variable cost but is smaller than average cost at the best level of output, than a perfectly competitive firm should stop production in the short run as it is making losses. True or False. Explain. (6)

(f) Draw an isoquant map for a firm that can always trade 5 units of labour for 1 unit of capital and still keep it's output constant. (6)

2. (a) The market for cab rides is defined by the following equations :

$Q_D=200-10P$

$Qs=20+10P$

Where:

- Q_D = quantity of rides demanded (in thousands)
- Qs = quantity of rides supplied (in thousands)

(i) Find the equilibrium quantity and equilibrium price in this market.

(ii) Due to a sharp increase in fuel prices, cab companies face higher operational expenses. Explain with diagrams how this will impact the market for cab rides. (8)

(b) In a rural Indian village, rice is the main staple food for most low-income households. When the price of rice falls from ₹ 40/kg to ₹ 30/kg, you would expect people to buy more rice. However, surveys reveal that some of the poorest families actually buy less rice and spend more on vegetables, lentils, and spices instead. At the same time, middle-income households buy more rice when the price falls, as expected. Using the income and substitution effect, explain with diagrams the difference in the behaviour of the two groups. (10)

3. (a) A monopolist is deciding how to allocate it's output between two geographically separated markets with the following demand function :

$P_1=150-Q_1$

$P_2=250-Q_2$

The total cost of the monopolist is given by

$C=50+30(Q_1+Q_2)$

Where P_1, P_2 are prices and Q_1, Q_2 are the quantities in the two markets respectively.

How much output should this monopolist sell in each market and what price? How much profit will he make? (10)

(b) Explain with the help of diagrams how a reduction in marginal cost might not lead to change in output and price under oligopoly. (8)

4. (a) With the help of diagrams explain the relationship between short run and long run average cost curves. Why is the long run average cost curve called envelope curve? (10)

(b) Prices are higher and output is smaller under monopolistic competition as compared to perfect competition even though firms make normal profits. Discuss with the help of diagrams. (8)

5. (a) How is the ordinal theory of demand superior to cardinal theory?

A consumer spends his entire income on commodity X and Commodity Y and realizes that marginal utility per rupee spent on commodity X is greater than marginal utility per rupee spent on Y with his current bundle. Is the consumer maximising his satisfaction? If not, what would your advice be for increasing satisfaction without increasing total expenditure. Explain. (4,6)

(b) How does a firm decide on the optimum level of output in the long run, given the production function and cost constraints. Explain graphically. (8)

6. Write short notes on any **three** of the following :

(a) Dominant price leadership model

(b) Supply curve of a perfectly competitive firm

(c) Saucer shaped average variable cost curve

(d) Economies of scope

(e) Properties of Indifference Curves (18)