

- (c) At what price would a household purchase 36 units of a good if the initial quantity purchased was 40 units at a price of Rs. 1 per unit? Consider three different coefficients of price elasticity of demand: 1, 1.5, and -0.8. (6)
6. (a) Define the concept of an Engel curve and discuss how a consumer's equilibrium can change with an increase in income level for a low-income consumer, specifically for two commodities: second-hand cars and new cars. Utilize the indifference curve framework to derive the Engel curve in this scenario. (10)
- (b) Explain what a price consumption curve (PCC) represents and how the demand curve is derived from the PCC specifically in the context of a normal good. Provide a graphical representation to support your explanation. (8)
7. (a) Why does the marginal cost (MC) curve intersect the average variable cost (AVC) and average total cost (ATC) curves at their respective minimum points? (8)
- (b) Under what conditions should a competitive firm continue to produce in the short run, even if it incurs losses at the best level of output? Provide a graphical explanation to support your answer. (10)

(1000)

[This question paper contains 4 printed pages.]

Your Roll No.....

Sr. No. of Question Paper : 5187

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Unique Paper Code : 2922061202

Name of the Paper : Microeconomics

Name of the Course : Bachelor of Management Studies

Semester : II

Duration : 3 Hours

Maximum Marks : 90

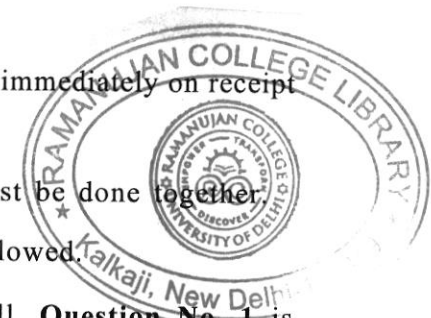
Instructions for Candidates

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. Use of simple Calculator is allowed.
4. Attempt **FIVE** questions in all. **Question No. 1** is compulsory.

1. Attempt **any three** questions out of the following:
(3×6=18)

- (i) A company that makes phone cases offers discounts of 10% on every case if you purchase one to five cases and 20% if you purchase more

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than five cases during their annual sale. Elaborate the price discrimination being used by the store.

- (ii) When comparing a Giffen good to an inferior good, the income effect is stronger. Elaborate.
- (iii) Envelope curve is covered under the traditional theory of cost. True or false. Explain.
- (iv) In the kinked demand curve model, if the marginal cost rises, the level of the output will rise as well. True or false? Why?
2. (a) What does price leadership entail within an oligopoly? Elaborate on the dominant firm model of price leadership, providing an explanation supported by a relevant diagram. (10)
- (b) A competitive firm may have super normal profits in the short run, but over the long run, it will only be able to avail normal profits. Describe using an appropriate diagram. (8)
3. (a) In what ways do producers benefit when it comes to imposing a social or welfare cost in the context of a monopoly? (8)
- (b) Explain the dominant firm strategy graphically? How are the smaller fringe firms affected by the same? (10)

4. (a) Explain the relevant cost curves in the context of a producer's long-run planning and short-run operations. (9)
- (b) Explain the concept of the L-shaped long-run average cost (LRAC) curve according to the modern theory of cost and its potential contradiction with the U-shaped LRAC curve of the traditional theory of cost. Provide reasons and examples to support your explanation. (9)
5. (a) How does the demand curve for pianos change when the price of piano lessons decreases, and what is the graphical representation? Does the elasticity of the demand curve also change? Furthermore, if the price of piano lessons changes by -5% and there is a corresponding increase in piano demand of +10%, what is the cross elasticity of demand for pianos? (6)
- (b) Explain the concept of income elasticity of demand for an inferior good and discuss whether it can exhibit a positively sloped demand curve with respect to price. Support your explanation with diagrams and examples. (6)