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[This question paper contains 4 printed pages.]

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

Sr. No. of Question Paper : **1571** **L**

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. **All** questions carry equal marks.

4. Use of simple calculator is allowed.

5. Attempt **FIVE** questions in all. Question No. **1** is compulsory.

P.T.O.

1. Answer **any three** of the following :

(a) In the long run, a perfectly competitive firm produces the output where price equals marginal cost and not average cost. True or False.

(b) A firm employs labour and capital such that marginal product for labour = 100, wages= Rs. 25, marginal product for capital = 120 and rent of capital = Rs. 40. Is the firm maximising the profit? If not, what should the firm do to maximise profit?

(c) The elasticity of demand for commodity Z is –2 at price = Rs. 100 and quantity = 500. Derive the equation of demand curve for commodity Z. Find the equilibrium price in the market for Z, if the supply curve for commodity Z is

$$Qs = 600 + 5Pz$$

(d) A producer requires two inputs to produce a commodity. If the price of both inputs are equal, then the producer should employ equal quantities of both inputs in order to maximise his profits . True or false

(e) If total cost rises as the level of output increases then marginal cost is also increasing. Do you agree? Explain your answer. (6×3=18)

2. (a) Explain using the law of diminishing marginal utility, how a rational consumer allocates his income between two goods to achieve maximum satisfaction? (9)

(b) Derive the LAC curve from short run average cost curves and explain why the LAC curve shows minimum per-unit cost of producing any level of output? (9)

3. If increase in income leads to a decrease in the consumption of commodity X, then an increase in price of X will not necessarily lead to an increase in consumption of X. Explain with the help of diagrams. (9)

4. (a) A perfectly competitive firm has the following cost function :

$TC = 50 + 2Q + Q^2$

and Market price (P) = Rs. 22

Find :

(i) Profit-maximizing output.

(ii) Profit or loss.

(iii) Should the firm continue to production in the short run. (9)

(b) Explain why firms under monopolistic competition tend to operate with excess capacity in the long run. Does this imply that there are too many firms in the industry? (9)

5. (a) An airline charges different prices for the same seat depending on time of booking, customer segment (business vs leisure), refund flexibility. Examine the types of price discrimination being practiced in each case. How does a discriminating monopolist attain equilibrium? Explain with diagrams. (9)

(b) In the telecom industry, a few large firms dominate the market. When one firm reduces its prices, others quickly follow to avoid losing customers. However, when one firm increases prices, others do not follow. Analyse this behaviour using the kinked demand curve model and explain how it leads to price rigidity? (9)

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

(i) Effect of reserve capacity on cost curves

(ii) Social cost of monopoly

(iii) Economies of scope

(iv) Dominant price leadership model (6×3=18)