

10/5/13

Morning

[This question paper contains 2 printed pages.]

Sr. No. of Question Paper : 1710

Roll No.....

Unique Paper Code : 248201

Name of the Paper : Micro Economics – II

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

Semester : II

Duration : 3 Hours

Maximum Marks : 75

**Instructions for Candidates**

1. Write your Roll No. on the top immediately on receipt of this question paper.
2. Attempt **five** questions in all.
3. All questions carry equal marks.
4. Question **One** is compulsory.

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

- (a) Dominant strategy
- (b) Rule of thumb for pricing
- (c) Monopsonistic Exploitation
- (d) Feasible allocation using Edgeworth box diagram (5+5+5)

2. A monopolist faces a market demand curve given by  $Q = 70 - P$ .

- (a) If the monopolist can produce at constant average and marginal costs of  $AC = MC = 6$ , what output level will the monopolist choose in order to maximize profits? What is the price at this output level? What are the monopolist's profits? Use diagram also. (10)
- (b) Discuss the rules a multi-plant monopolist uses to allocate output among its plants with the help of diagram. (5)

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3. Consider two firms taking the demand curve  $P = 30 - Q$ , where  $Q = Q_1 + Q_2$ . The firms have zero marginal cost i.e.  $MC_1 = MC_2 = 0$ .
- (a) Suppose both firms have entered the industry. What is the joint profit maximizing level of output? How much will each firm produce?
  - (b) What is each firm's equilibrium output and profit if they behave non-cooperatively? Use the Cournot model. Draw the firms' reaction curves and show the equilibrium.
  - (c) Describe some inefficiencies that can occur when resources are a common property rather than privately owned? Use diagrams. (5+5+5)
4. (a) Why is the market demand for an input not the simple horizontal summation of demand curves of the individual firms?
- (b) Why are wages and employment indeterminate when union has monopoly power and firm has monopoly power?
- (c) Bring out the difference between Economic Rent and Quasi Rent using diagrams. (5+5+5)
5. (a) What is meant by Voting paradox? How is this related to Arrow's impossibility theorem. (10)
- (b) Define feasible allocation and initial endowment allocation using Edgeworth box diagram. Show that points in the Edgeworth box diagram represent all feasible allocation. (5)
6. (a) Prove that in case of first welfare theorem for a simple monopolist resource allocation results in an inefficient equilibrium whereas in a discriminating monopolist results in efficient resource allocation. Explain using diagram. (10)
- (b) Can adverse selection lead to market failure? Explain using examples. (5)