

Model Question (Set B)
Microeconomics for Business

Group A

Brief Answer Questions (**Attempt all Questions**) [10*2=20]

1. Define marginal rate of substitution.
2. List out the factors that cause rightward shift in supply curve.
3. State the law of variable proportions.
4. Why does TR increase at a decreasing rate when MR decreases?
5. Let, $C_A = \text{RS } 150000$, $C_B = \text{RS } 100000$, $C_{A+B} = \text{RS } 200000$. Compute the degree of economies of scope.
6. Microeconomics is also called Price Theory. Why?
7. Identify the factors that create interest rate differentials.
8. Write any four characteristics of oligopoly.
9. Let, $e_p(\text{Newspapers}) = -0.6$ and $e_p(\text{Mobile sets}) = -1.8$. In order to increase the TR, to which commodity would you suggest to increase price?
10. Demand is a flow concept. Why?

Group B

Descriptive Answer Questions (Attempt any five) [5*10 = 50]

11. What is business economics? Explain its scope. [2+8]
12. Explain the modern theory of rent.
13. Explain the concept of cost-plus pricing with suitable examples.
14. Consider the following demand and supply schedules.

Points	A	B	C	D	E
P_x	0	5	10	15	20
Q_{dx}	60	45	30	15	0
Q_{sx}	10	20	30	40	50

- a. Derive linear supply function. Also compute elasticity of supply at equilibrium price.
- b. Compute price elasticity of demand at movement from B to D and D to B by percentage method.

- c. Compute price elasticity of demand at movement at midway between B and D and D and B by arc method.
- d. State the relationship between price elasticity of demand and total revenue. [2+3+3+2]

15. a. Explain the concept of price ceiling and price floor.

b. Let demand function $Q_d = 300 - 5P$, supply function, $Q_s = -150 - 5P$. Determine consumer's surplus, producer's surplus and total surplus. [4+6].

16. a. Differentiate accounting cost and economic cost with suitable examples.

b. Let, cost function, $C = 600 + 20Q - 3Q^2 + 0.1Q^3$

i. Derive TC, AVC, AC and MC functions

ii. Determine the value of TC, AVC, AC and MC at output (Q) = 20. [4+ (4+2)]

Group C

Analytical Answer Questions (Any Two)

(2*15)

17. How does firm maximize output by investing fixed total cost outlay at given prices on two inputs? What will be the effect on output when total cost outlay increases?
[8+7]

18. What is monopoly? How are the price and the output determined under it? [2+ (8+5)]

19. a. Derive income consumption curve for normal goods.

b. Let budget = Rs 10000, $P_x = Rs 200$, $P_y = Rs 100$,

(i) Derive budget constraint and identify the consumer's equilibrium under equal allocation of budget.

(ii) Let, price of X good falls to Rs 100, Derive new budget constraint. Also identify the new equilibrium when he allocates Rs 4000 on X goods and Rs 6000 on Y goods.

(iii) Derive price demand curve for X good. [5+ (4+4+2)]

Model Question (Set A)
Microeconomics for Business

Group A

Brief Answer Questions (Attempt all Questions)

[10x2=20]

1. What is incremental analysis in economics?
2. What is the effect of increase in tax in equilibrium price and quantity?
3. Define cross elasticity of demand?
4. Differentiate between cardinal approach and ordinal approach for demand analysis.
5. Draw the budget line if income of consumer is Rs. 20,000, price of good X is 100 and Price of good Y is 200.
6. Why does isoquant slope downward?
7. Differentiate between explicit cost and implicit cost.
8. Define predatory pricing.
9. Calculate the equilibrium level of output of the firm when marginal revenue is $MR = 300 - 0.002Q$ and marginal cost is $MC = 20 + 0.0008Q$
10. Prepare a list of factors that cause wage differentials.

Group B

Descriptive Answer Questions (Attempt any five)

[5x10 = 50]

11. How the production possibility curve is useful to illustrate the economic concepts?
12. What is demand function? Explain its types.
13. Explain the degrees of price elasticity of supply. Value of price elasticity of demand of milk is calculated as -0.7 and price elasticity of demand of coffee is calculated as -2.0, interpret the result and explain the nature of the goods. (6+2+2)
14. Explain the law of returns to scale.
15. Explain the consumer's equilibrium in cardinal approach under one-commodity model. Find the consumer's equilibrium if the price of apple is Rs 20, price of banana is Rs. 10 and the consumer spends whole income Rs. 110 on apple and banana with following marginal utility (MU) schedule: (4+6)

Units of consumption	1	2	3	4	5	6	7
MU of apple	800	700	600	500	400	300	200
MU of banana	500	450	400	350	300	250	200

16. Consider the following table of labor productivity:

Labor	0	1	2	3	4	5
Total product	0	10	18	24	28	30

Price of product is Rs 5 and wage rate Rs 30. Find the marginal physical product and marginal revenue product of labor. How does a firm employ profit maximizing number of labor? If wage rate increases to Rs. 40 what will be the equilibrium situation?

Group C

Analytical Answer Questions (Any Two)

(2*15=30)

17. Define cartel. Explain its types. How price is determined under centralized cartel?
(2+3+10)

18. Consider the following schedule of a competitive firm: (10+5)

Output	1	2	3	4	5	6	7	8
AVC	30	27	24	24	30	39.9	53.1	67.5
AC	330	177	123.9	99	90	90	96	105
MC	30	24	18	24	54	90	132	168

- a. Graph AVC, AC and MC. What is the position of firm's profit at price Rs. 132, Rs.90, and Rs. 54? What is the position of firm at price Rs. 24? Does this point refer to the shut down point? Give reason.
- b. Using the cost schedule, explain the relationship of AC with AVC and AFC.

19. "Price effect is the sum of income effect and substitution effect." Explain with the example of Giffen goods.