

Date of Exam: 15/04/2019

Time: 2 Hours 30 mins

Marks : 50

Note : Attempt any 5 Questions. Each question carries 10 marks.

Q.1 In Country Dreamland, cigarettes are forebidden, so people trade cigarettes in a black market. The cigarette demand is  $Q_d = 12 - P$ , and the cigarette supply is  $Q_s = 2P$ .

- a) Find the equilibrium price and quantity in the black market.
- b) The government becomes aware of the black market and reinforces the police so that the half of the cigarettes supply would be seized and destroyed. Under this circumstance, what are the demand and supply functions? What is the new equilibrium price and quantity? Show the change by using a demand and supply diagram.

Q.2 Describe the concept of elasticity of supply. Explain the type of elasticity of Supply with suitable example.

Q.3 Define Indifference Curve. Explain why indifference curve slopes downward and discuss the properties of indifference curve.

Q.4 Based on a consulting economist's report, the total cost functions for Bihar Electronics is given as  $TC = 200 + 5Q - 0.04Q^2 + 0.001Q^3$ . The president of the company determines that knowing only these equations is inadequate for decision making. You have been directed to do the following:

- a) Determine the level of fixed cost (if any) and equations for MC,

AC, AFC and AVC

- b) Determine the rate of output that results in minimum AVC.
- c) If fixed cost increases to Rs.500/-, at what output AVC will be minimum?

Q.5 What are the reasons for the existence of the monopoly? Explain the types of monopoly. How is it different from oligopoly?

Q.6 Explain the concept of returns to scale and distinguish among increasing returns to scale, constant returns to scale and decreasing returns to scale.

Q.7 Case Let: Does Perfect Competition exist?

The street food and fruits & vegetable market somewhat reflects the same condition prevalent in any other sector, viz., many sellers selling homogenous products with little or no variation in the product's nature, consumers/sellers possessing perfect information of the product in question and relatively few barriers to entry or exit. However, the scenario of a perfect competition in the street food/ fruits & vegetable market is slightly more as compared to the other sectors where advertising and branding is used to differentiate the products. Moreover, consumers are not dedicated to any particular vendor and can negotiate the price to a large extent.

Case Questions:

- a) Do you agree with the analysis in the case that street food / fruits & vegetable market is more similar to perfect competition like conditions?
- b) What other characteristics of perfect competition can be seen in the street vendors of such items?