Micro Economics

M.A. Economics (Previous) External – University of Karachi

Micro-Economics

Annual Examination 1997

Time allowed: 3 hours ***Maximum Marks: 100***

1) *Attempt any five questions.*
2) *All questions carry equal marks.*

1. Briefly distinguish between:
   (a) Economies of scale and Diseconomies of scale;
   (b) Cardinal and Ordinal utility;
   (c) Explicit cost and Implicit cost;
   (d) Price consumption curve and Income consumption curve;
   (e) Demand shifters and Supply shifters;
   (f) Law of diminishing return and Returns to scale; and
   (g) Firm and an Industry.

2. (a) What are the assumptions of **MONOPOLY MARKET**?
   (b) Compare the **LONG-RUN EQUILIBRIUM OF A PERFECTLY COMPETITIVE MARKET** with that of **LONG-RUN EQUILIBRIUM OF A MONOPOLY** market.

3. (a) Define the concept of **GAME THEORY** in Economics.
   (b) Draw all the **SHORT-RUN COST CURVES** and explain their relationships.

4. Explain and illustrate **PRICE EFFECT** assuming commodity X as inferior.

5. (a) Explain the **MARGINAL PRODUCTIVITY THEORY OF LABOUR DEMAND**.
(b) The demand for labour, like the demand for other factors of productions, is a derived demand. Discuss.

6. (a) Starting from a position of **GENERAL EQUILIBRIUM** for entire economy, if for any reason the market supply for commodity X increases, examine what happens in (i) the markets for commodity X,

its substitutes and complements, (ii) the factor markets, and (iii) to the distribution of income.

(b) Can an economy over reach **GENERAL EQUILIBRIUM** in the real world?

7. Show graphically the three **STAGES OF PRODUCTION** and explain the shape of the average product of labour and marginal product of labour curves in terms of the shape of the total product curve.

8. Write short notes on any two of the following:
   (a) Economic rent,
   (b) Production possibility frontier,
   (c) Marginal utility approach,
   (d) Elasticity of demand

9. Critically examine the marginal rules of **WELFARE ECONOMICS**.

Annual Examination 1998

1. Define the term **EQUILIBRIUM** and distinguish between the following with the help of suitable examples:

(a) Partial and General Equilibrium,
(b) Stable and Unstable Equilibrium.

2. A consumer obtains maximum satisfaction from the purchase of the two goods when the **MARGINAL RATE OF SUBSTITUTION** (MRS) between these two goods is equal to their price ratio. Explain with the help of Indifference Curves.

3. Define **MARGINAL PHYSICAL PRODUCT** (MPP) and **MARGINAL REVENUE PRODUCT** (MRP). Explain why maximisation of profit requires that each factor price must be equal to the factor's Marginal Revenue Product (MRP).

4. (a) What are the basic points of difference between **PERFECT COMPETITION** and **MONOPOLISTIC COMPETITION**?
(b) Explain with the suitable diagram the equilibrium of a firm in the **SHORT RUN UNDER PERFECT COMPETITION**. When should a firm decide to shut down?

5. Discuss the factors which contribute to the 'U' shape of the **AVERAGE COST CURVE** (ACC). Explain why **MARGINAL COST CURVE** (MCC) cuts AC and AVC curves at the bottom of their 'U's?

6. In an industry there are six large firms which account for 95% of the net output and employment. Assuming there is no collusion between rivals in the firm, explain how the firms might go about setting their price and output?

7. Define **ELASTICITY OF DEMAND** and distinguish between Point Elasticity and Arc Elasticity. Explain the methods of measuring point elasticity.

8. (a) Define **DISCRIMINATING MONOPOLY**. Under what conditions discrimination is possible and profitable?
(b) Explain the Price-Output Policy of a Discriminating Monopolist.

9. Explain the marginal rules to be followed to maximise **WELFARE**, if there are two inputs to be allocated for the product of different commodities.

10. Write short notes on any two of the followings:

(a) Giffen paradox,
(b) Consumer's surplus,
(c) Game theory,
(d) Economic rent.

Annual Examination 1999

1. Define and explain **MICRO ECONOMICS, MACRO ECONOMICS**, **NORMATIVE ECONOMICS** and **POSITIVE ECONOMICS** with suitable examples. Also discuss their relationships.

2. State with reasons if the followings are true or false:
   (a) **INDIFFERENCE CURVES** have been drawn in such a way that they are convex to origin.
   (b) A consumer's demand curve can be derived directly from tangency points of Indifference Curves.

3. (a) Delineate three **STAGES OF PRODUCTION** using APP (Average Physical Product) and MPP (Marginal Physical Product). Will increasing a variable input in its region (assume the input is in 2nd stage) leads to an increase or decrease in total outputs?
   (b) What are the relationships between Marginal Cost and Marginal Product, Average Cost and Average Product?

4. Define **ELASTICITY OF DEMAND**. What are its types? Discuss with suitable examples. How is the total revenue related to the price elasticity of demand?

5. Equilibrium price is the result of **INTERACTION OF DEMAND AND SUPPLY**. 'When demand increases, the equilibrium price will always rise,' is this always true? Explain with the help of diagrams.

6. (a) Why only increase in output level, minimise the profit in perfect competition?
   (b) Why does **PERFECT COMPETITION** earn normal profit in the long run and super normal profit in short run? Explain with the help of diagram.

7. What are the **CHARACTERISTICS OF THE OLIGOPOLISTIC MARKET** structure?
   Why an oligopolistic demand curve might be kinked?

8. What is **WELFARE ECONOMICS**? How does it relate to **PARETO OPTIMALITY**? What implications do these concepts have for efficiency and equity in Capitalistic System?

9. Write short notes on any two of the following:
   (a) Monopoly,

(b) Modern theory of wages,
(c) Classical theory of interest,
(d) Opportunity cost.

Annual Examination 2000

1. (a) Discuss various axioms of **ORDINAL THEORY OF CONSUMER PREFERENCE**. Show that two **INDIFFERENCE CURVES**cannot intersect each other.
(b) Using Ordinal Theory, explain how would you derive the demand curve for a commodity?

2. (a) In the market for commodity X, suppose currently the price is such that the plans of industry producing X and the plans of all households who consume X do not match. How would the market help individuals co-ordinate their plan?
(b) Assume now that the incomes of consumers increase, how and why would equilibrium price and quantity of good X change?

3. (a) Draw the short-run total cost and total variable cost curves for a typical firm. From these derive the Average Fixed Cost (AFC), Average Variable Cost (AVC), Average Total Cost (ATC) and Marginal Cost (MC) curves indicating all critical points.
(b) Using the short-run average and Marginal cost curves derive the long-run cost curves.

4. Explain the concept of **ELASTICITY OF SUBSTITUTION IN PRODUCT**. How does the elasticity of substitution determine the distribution of income between labour and capital?

5. (a) Indicate the underlying assumptions for perfectly elastic demand curve faced by a firm under **PERFECT COMPETITION**.
(b) Using the total revenue total cost curves derive the short-run profit maximising condition for a firm under perfect competition.

6. (a) Explain fundamental differences between the operations of a perfectly competitive firm.
(b) Why and how would a monopolist charge different price for the same commodity? Explain.

7. (a) Define **PARETO OPTIMALITY**. State the conditions that must hold for Pareto Optimality.
(b) Explain the effects of externalities on Pareto Optimality conditions.

8. Critically explain the **CLASSICAL THEORY OF INTEREST**.

9. Write short notes on any two of the following:

(a) Elasticity of demand,

(b) Law of diminishing returns,

(c) Ricardian theory of rent.

Annual Examination 2001

1. (a) Define the term **EQUILIBRIUM** in Economics.
   (b) Distinguish between:
   (i) Stable and Unstable Equilibrium,
   (ii) Partial and General Equilibrium.

2. (a) What is meant by **PRICE ELASTICITY OF DEMAND?** How is it measured?
   (b) Describe the kinds of elasticity of demand.

3. Explain the difference between **PERFECT COMPETITION** and **MONOPOLY** with respect of the following:
   (a) The number of firms in the industry,
   (b) Type of output produced,
   (c) The shape of demand curve,
   (d) The entry and exit of firms from the industry,
   (e) The condition of profit maximisation in the short-run.

4. (a) State and explain the **LAW OF DIMINISHING RETURNS** with the help of a schedule and a diagram.
   (b) Why is it especially applicable in agriculture sector?

5. Differentiate between the following (any four):
   (a) Income consumption curve and Price consumption curve,
   (b) Expansion in demand and Rise in demand,
   (c) Indifference curve and Isoquant,
   (d) Short-run and Long-run,
   (e) Implicit cost and Explicit cost,
   (f) Average revenue and Marginal revenue.

6. (a) What is meant by **CONSUMER EQUILIBRIUM**?
   (b) Prove with the help of diagram that price effect is the combination of income and substitution effect.

7. (a) Define **MONOPOLISTIC COMPETITION** and explain its characteristics.
   (b) Explain with the help of diagram the equilibrium of a firm under Monopolistic Competition in the long-run.

8. Explain **LIQUIDITY PREFERENCE THEORY OF INTEREST** and compare it with Classical Theory.

9. Write detail note on any two of the following:
   (a) Price discrimination,

(b) Game theory,
(c) Marginal rules of Welfare Economics,
(d) Marginal productivity theory.

Annual Examination 2002

1. (a) Define the term **EQUILIBRIUM** and explain its significance in economic analysis.
   (b) State the different types of equilibrium with examples.

2. (a) Explain **CONSUMER'S EQUILIBRIUM** with the help of Indifference Curve technique.
   (b) How would the equilibrium of a consumer in respect of a particular commodity be affected if:
   (i) the price of the commodity rises,
   (ii) the income of the consumer fails.

3. (a) What are the salient features of **PERFECT COMPETITION**? Explain the firm's equilibrium under perfect competition in the short-run.
   (b) Compare the long-run equilibrium of a firm under Perfect Competition with the long-run equilibrium of Monopoly market.

4. State and explain the **MARGINAL PRODUCTIVITY THEORY** with the help of schedule and a diagram.

5. (a) What is meant by **MARGINAL RATE OF SUBSTITUTION**?
   (b) State and explain the Law of Diminishing Marginal Rate of Substitution.

6. State and explain the **LAW OF VARIABLE PROPORTIONS**. Illustrate diagrammatically.

7. Critically examine the marginal rules of **WELFARE ECONOMICS**.

8. Explain the concept of **GAME THEORY** in economics with the help of examples.

9. Write short notes on any two of the following:
   (i) Ricardian theory of rent,
   (ii) Price elasticity of demand and its significance,
   (iii) Law of equi-marginal utility,
   (iv) Kinky demand curve.
