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| Course Code MEC – 01 |
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Term End Examination - December, 2019

MICROECONOMIC ANALYSIS

Master of Arts (Economics) (MAEC)

Time : 3 hours*Full Marks* : 100*The figures in the right-hand margin indicate marks*Answer **all** Groups as directed

Group—A

1. Answer *all* the questions, each within 1 word : 1×10=10

Which terminology best describes the following:

- (a) The satisfaction derived by a consumer from consumption of a good or service?
- (b) The consumption and production behaviour of some agents affecting the production and consumption behaviour of another agent who is not a party to the transaction.

(2)

- (c) A situation when more than one producer join hands to act like a single seller.
- (d) The outcome of a game after the players have chosen their strategies.
- (e) A specific course of action undertaken by a player in a game.
- (f) The relationship between minimisation and maximisation objectives.
- (g) A rational transactor trying to select the most favourable cases out of a set of options.
- (h) Initiatives taken by individuals of informed category in market characterized by adverse selection to help identify their true risk category.
- (i) A market structure where there is single seller of a product.
- (j) The consolidation of two or more independent firms into a single firm.

(5)

Group—D

4. Answer any *two* questions each within 300 words : 15×2=30

- (a) Explain how own price effect consists of substitution effect and income effect for a price change using suitable diagram.
- (b) What do you mean by spillover effect? Explain how Coase theorem address the problem of market externality known as spillover effect. State the criticisms and controversies that Coase's theorem is subject to.
- (c) The total cost function of a perfectly competitive firm is given as:
$$TC = 100 + 200Q - 20Q^2 + 2Q^3$$

Below what price of the product may the firm decide to shut down its operation?

(4)

Group—C

3. Answer any *four* questions each within
200 words : 10×4=40

- (a) Explain the meaning of long-run planning curve using suitable diagram. Why is it also known as 'Envelope Curve'?
- (b) Explain Sweezy's Kinked Demand Curve model using suitable diagram. State which behavior of the firms is central to Sweezy's analysis.
- (c) Discuss the concept of Prisoners' Dilemma. Explain how in the case of Prisoners' Dilemma individual rationality leads to group sub-optimality.
- (d) Explain various features of Monopolistic Competition.
- (e) Discuss the problem of Moral Hazard and Adverse Selection in the context of Insurance Market.
- (f) Discuss price discrimination under discriminating monopoly with reference to third-degree discrimination.

(3)

Group—B

2. Answer any *four* questions each within
100 words : 5×4=20

- (a) What do you mean by monopoly? State the various factors causing entry barrier and preventing other firms to enter into the market.
- (b) Why do we consider the portion of the MC above the AVC curve to represent the supply curve of the firm?
- (c) State the reasons behind 'Market Failure'. Give three examples of suboptimal market structure.
- (d) What do you mean by Pareto Optimality? State the conditions under which a free market in equilibrium will be Pareto efficient.
- (e) Explain how based on the nature of MP and AP, the short-run production process can be divided into three stages. In which stage a rational producer should produce?
- (f) What do you mean by return to scale? Explain various types of return to scale.