

Indian Institute of Technology Patna

End Semester Examination 2011

HS201: Introductory Microeconomics

Total Marks: 50

Time: 3 Hours

Answer all the questions

1. Explain the concept of income elasticity. Why does the income elasticity of demand for food tend to be low in rich countries? Give examples of types of goods and services the demand for which you would expect to have high income elasticity in rich countries. How would the last answer differ in poorer countries? (3+2+2+3=10 Marks)
2. What are the rules of profit maximization? Explain these rules in the context of a firm that is in a perfectly competitive market structure. (3+7=10 Marks)
3. How should a monopoly choose its quantity of production to maximize profits? Explain why producing either less or more than the level of output at which marginal revenue equals marginal cost will reduce profits. Since a monopolist need not fear competition, what prevents it from raising its price as high as it wishes to make higher profits? (3+4+3=10 Marks)
4. Discuss several market failures. Why do economists see the existence of these market failures as a justification for government action? (5+5=10 Marks)
5. Explain the concept below in 100 words: (2x 5=10 Marks)
 - a. Public goods
 - b. Cartel
 - c. Long run cost curve
 - d. Factor Market
 - e. Importance of Microeconomics