

Indian Institute of Technology Patna

HS201: Introductory Microeconomics

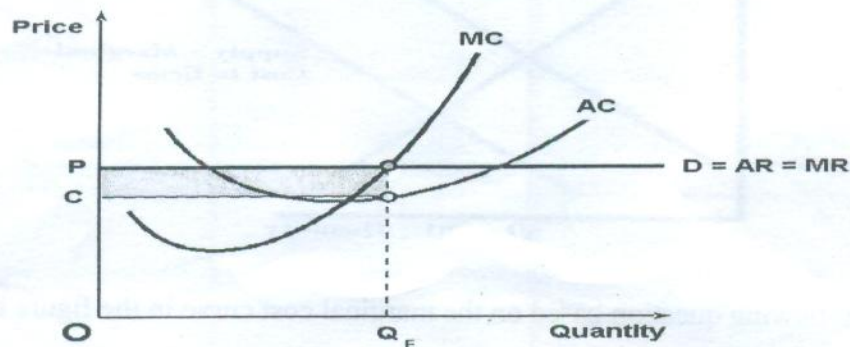
End Semester Examination-2009

Total Marks: 50

Time: 3 hours

Attempt all the questions

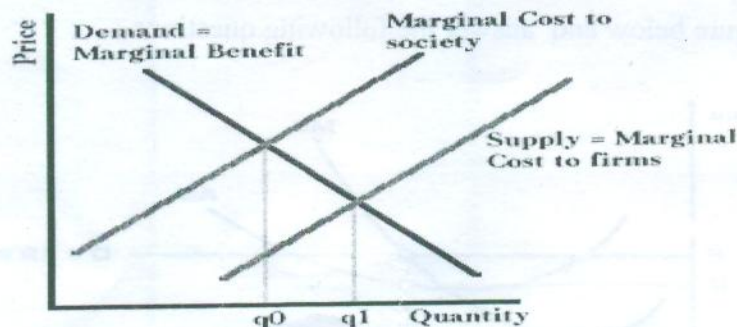
1. See the figure below and answer the following questions :



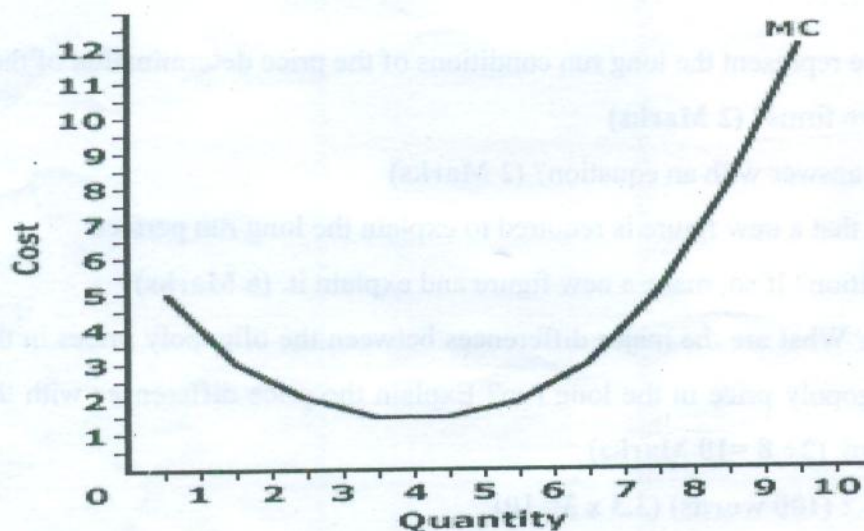
- (a.) Will this curve represent the long run conditions of the price determination of the perfect competitive firms? (2 Marks)
- (b.) Support your answer with an equation? (2 Marks)
- (c.) Do you agree that a new figure is required to explain the long run perfect competition condition? If so, make a new figure and explain it. (6 Marks)
2. Define Oligopoly. What are the major differences between the oligopoly prices in the short run and oligopoly price in the long run? Explain the price differences with the help of the diagram. (2+ 8 =10 Marks)
3. Answer any three : (100 words) (3.3 x 3= 10)
 - (a.) Why Public goods are facing free riders problems?
 - (b.) Is market failure different from government failure?
 - (c.) What is the Implication of Price Elasticity of Demand for Businesses and Government?
 - (d.) Why in a natural economic condition price mechanism understood as the best system of resources allocation and equity?

4. Negative externalities are generally increasing the social cost. Offer your suggestions to reduce the negative externalities in the situation discussed in the figure below. You must make diagrams to show how negative externalities may be reduced? (5+5)

With externalities, some effects of decisions are ignored by those making decisions, so results are not optimal.



5. Answer following question based on the marginal cost curve in the figure below :



- (a) Why marginal cost curve is U shaped? (3 Marks)
- (b) With this graph explain the law of returns to scale. Your answer should be supported by a new diagram. (7 Marks)