

Indian Institute of Technology Patna

End Semester Examination 2015

HS201 Introductory Microeconomics

Time: 3 Hours

Marks 50

Answer all the questions.

1. (A) Explain the terms 'change in demand' and 'change in quantity demanded' and represent the same graphically.

(B) Also state three factors responsible for 'change in demand'. (4+2=6 Marks)

2. Using the following schedule find the level of output at which the producer is in equilibrium using MC and MR approach. Also give reasons for your answers (5 Marks)

Price per unit	Output	Total Cost
8	1	6
7	2	11
6	3	15
5	4	18
4	5	23

3. In which market structure would you place each of the following products: monopoly, oligopoly, monopolistic competition, or perfect competition? Why? (2x8=16 Marks)

- Retail market for water and sewerage services
- Economics textbooks
- Economics, a book by N. Gregory Mankiw and Mark P. Taylor
- Photographic film
- Restaurants in a large city
- Car tyres
- Breakfast cereal
- Air travel from any one airport

4. Distinguish between the following:

(2x3=6 Marks)

- I. Normal good and Inferior good
- II. Marginal utility and Total utility
- III. Individual demand schedule and Market demand schedule

5. Indicate whether each of the following statements is correct or not and explain why.

(2x5=10Marks)

- A. Equilibrium in monopolistically competitive markets requires that firms be operating at the minimum point on the long-run average cost curve.
- B. A high ratio of distribution cost to total cost tends to increase competition by widening the geographic area over which any individual producer can compete.
- C. The price elasticity of demand tends to fall as new competitors introduce substitute products.
- D. An efficiently functioning cartel achieves a monopoly price/output combination.
- E. An increase in product differentiation tends to increase the slope of firm demand curves.

6. Define negative externalities. Using an appropriate diagram show how the actual level of carbon emission is higher than the efficient levels of emission in the absence of corrective action. (2+5=7 Marks)

7. With the help of diagrams compare and contrast the profit-maximizing firm in perfect competition and monopoly with respect to price and output levels. Draw a separate diagram to explain what it means for a firm to be a 'price-taker'. (7+3=10 Marks)