

M08

Indian Institute of Technology, Kharagpur

Date: _____ FN/AN Time 2 hrs Full Marks 30 No of Students: 400 (Approx)

Spring Mid-Sem. Exam, 2012 Subject: Economics Subject No: HS 20001

Instruction: Answer all the questions

1. a) Make a distinction between cardinal and ordinal measures of utility? Explain the law of equi-marginal utility. 2 + 1
b) Discuss the conditions for Consumer Equilibrium. Using appropriate diagram and Slutsky's approach, explain that price effect is a combination of income effect and substitution effect assuming that there is a decrease in price of a commodity. 2 + 2
c) Write short notes on the following 1+1+1
 - i) Law of diminishing marginal utility
 - ii) Income consumption curve
 - iii) Exceptions to the law of demand
2. a) Explain how Keynesian consumption function is different from the Classical consumption function with justifications. Discuss Keynesian consumption function with its properties under the assumptions that
i) there is a vertical intercept and ii) there is no vertical intercept.
Interpret the above two cases in the context of business fluctuations. 5
b) Define marginal efficiency of capital and suggest the factors determining it. Consider an investment proposal in West Bengal, which yields annual prospective yields (net returns) of Rs 500 Cr in first year, Rs 400 Cr in second year and Rs 300 Cr in the final year of its life. The initial capital required to undertake the investment is Rs 800 Cr. The cost of raising the capital is 10%. Find out the MEC of the investment and suggest whether the investment is worth-making. 5
3. Answer any two of the following 5 + 5
 - a) Differentiate between Capitalism, Socialism and Mixed economy. Justify which system is better, mentioning the characteristics of each of the system.
 - b) Is it true that through the Industrial Policy Resolutions (IPRs) India initiated her development path under a mixed economic setup? Explain the main features of the Industrial Policy Resolutions in this context.
 - c) Make a critical review of Indian Planning in the Pre-reform era.
