Dt
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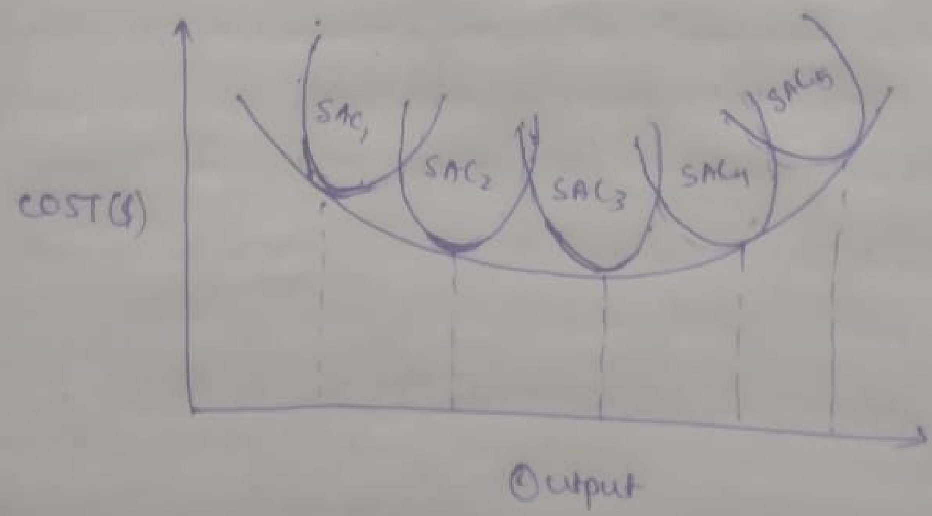
[120BM0014]

ECONOMICS

SECTION-A

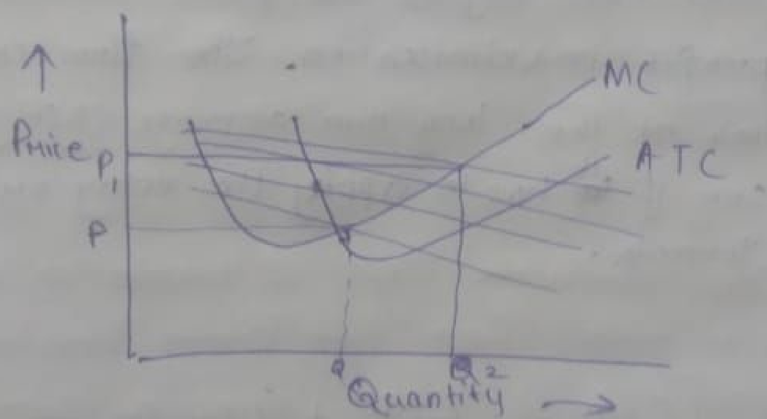
1) part-2 The long run average cost curve shows the cost of producing each quantity in the long run, when the firm can choose its level of fixed costs and the short-term costs it desires. It helps the plant decide on the various aspects of the investment and helps in reducing the cost. Therefore long-run average cost is also known as planning curve. LAC is basically the locus of the points with the least cost of producing.



part-1 Since diminishing productivity is caused by fixed capital, there are no diminishing returns in the long run. So, the firms choose the proper capital to increase/decrease the desired level of output.

5 Monopolistic competition is characterized by multiple firms that sell differentiated products and advertising is the technique used by firms in monopolistic competition to create that differentiation. This is to make sure the market is under control and as a result decide higher price. Advertising informs consumer about physical difference and make them believe that the product is superior to the competitor.

Advertising basically increase the demand but decrease the demand elasticity. Advertising will help to increase the consumers or demand curve of the product and hence increasing the price and quantity as well.



Advertising is expensive and the firms will keep on advertising until the revenue generated is more than the cost of advertising because if the marginal revenue (MR) is ~~loss~~ negative then this advertising can be a loss to the firm. So, the firm always has to maintain elastic demand so that it can focus on profit maximization.

(3) The minimum price the firm would accept is $26, because when the marginal cost is less than average variable cost, the output is 9 but when ~~marg~~ marginal cost is greater than the AVC, the output is 10. So, the shut down point is in between these outputs. Hence, the firm will accept $26 as price for short run.

In case of losses, the firm might start to decrease the production/output and cease to exist completely. It can also increase the demand elasticity, so that the firm can adjust the price according to the profit maximization. The firm can also look at the long-run average cost graph to see if it has to apply the entry or the exit formula.

(7) So, $\left[GVA = GDP + (\text{subsidies} - \text{taxes})\right]$ on products

GVA at factor cost

~~= Market Price + Depreciation~~

→ Market price + Economic subsidies − Intermediate consumption − Indirect taxes

$= 10500 + 200 - 4000 - 750$

$\boxed{= ₹5950}$

1 a) The optimal output produced by each firm in the long-run competitive equilibrium (LRCE) is

$ALTC = q^2 - 24q + 200$

$\Rightarrow \frac{d(ALTC)}{dq} = 2q - 24 = 0$

$\Rightarrow q = 12$

$\therefore$ The output is \$12.

b) The MP & Market output at the LRCE is:

$MC = 3(12)^2 - 48 \times 12 + 200$

$= 56$

$\Rightarrow P = 56$

$\therefore Q = 1480 - 5 \times (56)$

$= 1200$

The market output will be 1200 units at \$56.

c) The number of firms at the LRCE is:

$n = Q/q$

$= 1200/12 = 100$

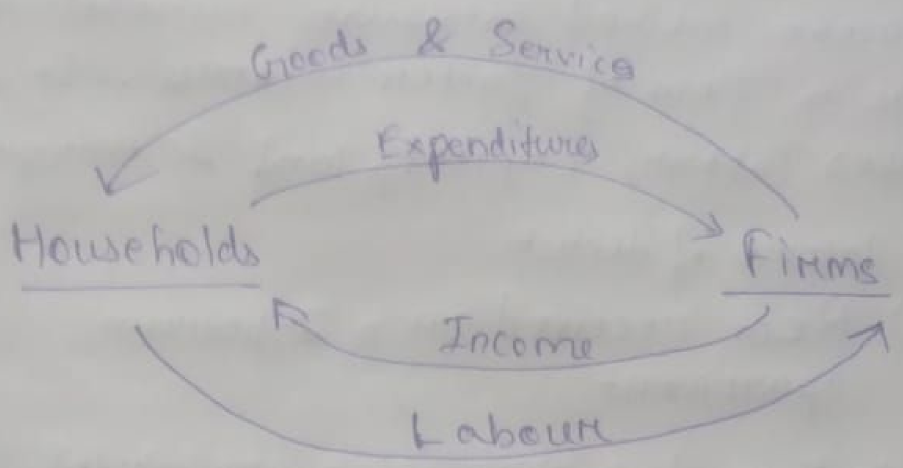
There will be 100 firms in the LRCE.

SECTION-B

(3) Sticky price is the rigidity of the market price to change quickly or remain constant even though the broader economy is changing fast and it implies a mere optimal price. Even after changing of cost of production, sticky prices are those whose market price remain same.

In oligopoly firm doesn't lose or gain by changing its price from the prevailing market. There is no demand elasticity, so even with the change in price, the demand remains the same.. Hence the firms stick with one price for a long time leading to sticky price.

(5) The circular flow of income in an economy is a model chart that shows how money moves from one economic agent to other. So, the money flows from producers to workers as wages and then flow back to producers as the payment from consumers. So, it is like an endless loop or flow of money.



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Product Method

→ In this method, national income is measured as a flow of goods and services. We calculate money value of all final goods and services produced in an economy during a year. Final goods here refer to those goods which are directly consumed and not used in further production process.

Expenditure Method

→ In this method, national income is measured as a flow of expenditure. Likewise, GDP is measured upon sum-total of private consumption expenditure, government consumption, gross capital formation and net exports.

7. Income method measures national income as a flow of factor incomes. So, it uses labour, capital, land & entrepreneurship

i) Income of dentist
ii) Rent received on a 2-bedroom apartment

Only these two above points are included.

1. Yes, they differ in the lowest price as the monopoly price is more than all competitive prices. The equilibrium between the MC curve & MR curve takes place at lower level of outputs, hence production is less. Competitive markets has to take the pressure of competing firms which forces them to lower the price according to the equilibrium of market where as in a monopoly, they can sell all the output they want at the market price hence, need not offer lower price.