

**TRIBHUVAN UNIVERSITY**  
**FACULTY OF MANAGEMENT**  
Office of the Dean  
September 2017

Full Marks: 60  
Time: 3 Hrs.

**BIM / Fourth Semester / ECO 201: Micro Economics**

*Candidates are required to answer all the questions in their own words as far as practicable.*

**Group "A"**

**Brief Answer Questions:**

[10 × 1 = 10]

1. State the types of microeconomics.
2. Write any four assumption of indifference curve.
3. Write the degrees of income elasticity of demand.
4. Consider the supply function,  $Q = 50 + 10P$ : Compute price elasticity of supply at Price Rs 5.
5. Write any four causes for shifting supply curve.
6. Firm, under monopolistic competition is a price maker. Why?
7. State the condition for interest rate determination according to loanable funds theory of interest.
8. Prepare a list of characteristics of LAC.
9. If a demand curve faced by a competitive firm is  $dx = Px = Rs 20$ . Compute price elasticity of demand at  $Qx = 50$  units.
10. Why is SAC U-Shaped?

**Group "B"**

**Short Answer Questions:**

[6 × 5 = 30]

11. What is demand function? Explain its types.
12. Explain the properties of Cobb-Douglas production function.
13. Explain the behaviour of TFC, TVC and TC.
14. Explain the relationship between price elasticity of demand and revenue.
15. Describe the modern theory of rent.
16. Firm, under monopoly may operate its business with loss in short run. Using graph, explain with proper reasons.

**Group "C"**

**Comprehensive Answer Questions:**

[2 × 10 = 20]

17. Suppose that income of the household is Rs 8000, price of X good is Rs 200 and price of Y good is Rs 100.
  - a. Draw the budget line for the household and show where the household ends up on the budget line under equal allocation of budget.
  - b. Draw the new budget line when income of the household increases to Rs 12,000. Suppose that household spends Rs 10,000 on X good and Rs 2000 on Y good. Show where the household ends up on the budget line.
  - c. Derive Engel curve for X good. Also describe the nature of two goods.

[4 + 4 + 2]

18. In a modern competitive market environment, firms are operating their business with a view of satisfying goals like maximization of output, profit and sales or minimization of cost subject to various types of constraints, risks, uncertainties and challenges. For example, a biscuit factory may seek to maximize output and profits subject to resource constraints. A private college may seek to provide quality education to many students as possible using limited physical resources at reasonable price. A government agency like Nepal Electricity Authority (NEA) may seek to provide electricity to many households as possible with a view of providing maximum welfare. In all these cases, business firms have to face managerial decision problems as they seek to achieve goals subject to the constraints they face.

Managers must therefore develop strategies so that the goals of the firms can be efficiently realized. Microeconomics offers concepts and theories to solve these problems more efficiently in reference to efficient allocation of scarce resources, prediction, pricing, goal settings, etc. with this reference, answer the following questions;

- a) Explain which microeconomic principle the firm like biscuit factory apply to achieve efficient utilization of capital and human resources.
- b) NEA has followed the policy of price discrimination in pricing the electricity to the household sector. In your opinion, which microeconomic principle the NEA followed to it and why? Give reasons.

