TRIBHUVAN UNIVERSITY

FACULTY OF MANAGEMENT

Office of the Dean

2015

Full Marks: 60

Time: 3 Hrs.

BIM / Fourth Semester / ECO 201: Micro Economics

Candidates are required to give their answers in their own words as far as practicable.

Attempt ALL questions

Group "A"

Brief Answer Questions: [10 × 1 = 10]

1   What is micro dynamics?

2   Write any four determinants of demand?

3.   What are the conditions for consumer's equilibrium?

4   Derive slope of iso-cost line in a geometrical form.

5   Why is SAC U-shaped?

6   Write the relationship between price elasticity of demand and marginal revenue.

7.   What are the causes for raising monopoly?

8   Why does IQ convex to the origin?

9.   A competitive firm is also known as optimum firm. Why?

10   Write any four characteristics of monopolistic competition.

Group "B"

Short Answer Questions: [6 × 5 = 30]

11.   What is microeconomics? Explain its uses in business decision making.

12.   What is price elasticity of supply? How is it computed by point method on a linear supply curve?

13   What is indifference curve? Describe its properties.

14.   Explain the properties of Cobb-Douglas production function.

15   Explain the relationship between AR and MR.

16   Explain the modern theory of rent.

Comprehensive Answer Questions:

[2 × 10 = 20]

17. Consider the following cost schedule:

Output:	1	2	3	4	5	6	7	8	9
AVC:	10	9	8	8	10	13.3	17.7	22.5	28.9
AC:	110	59	41.3	33	30	30	32	35	40
MC:	10	8	6	8	18	30	44	56	80

a) Using the given schedule, explain the relationship between AC and MC.

b) Graph MC, AC and AVC and examine the positions of the firm at prices of Rs 43, Rs 30 and Rs 18. Does firm reach at shutdown point when price falls to Rs 8? Give reasons.

c) Derive and define short-run supply curve of a competitive firm.

[4+4+2]

18. (i) Dairy Development Corporation (DDC) has introduced different products i.e. milk, ghee, curd and paneer as joint products since 2002. The figures of total quantity produced of these products in 2013 and 2014 are given below.

Products	2013		2014	
	Price (Rs per unit)	Demand (in units)	Price (Rs per unit)	Demand (in units)
Milk	50	200000	45	300000
Ghee	200	20000	180	28000
Curd	60	50000	80	4500
Paneer	100	1000	120	950

a. Compute price elasticity of demand for the products of DDC by percentage method.

b. Suppose that you are appointed as a marketing manager in 2015. The Board of Director of DDC has assigned you to revise existing prices in order to increase total revenue in 2015 on the basis of price elasticity of demand. How do you revise price of each product of DDC to meet this goal. Explain with proper reasons.

[5+5]

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