TRIBHUVAN UNIVERSITY
FACULTY OF MANAGEMENT
Office of the Dean
September 2018

Full Marks: 60
Pass Marks: 27
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. Microeconomics is also called price theory. Why?
2. Find the slope of demand curve from the demand function Q = 50 - 2P.
3. When the units of inputs labor and capital has increased from 12 to 18, the output has increased from 200 units to 300 units; which scale of returns applies here? Justify.
4. Write any four examples of fixed cost.
5. "A monopoly firm will not produce at a price which is lower than average variable cost." Why?
6. Write any four causes for rightward shifts in supply curve.
7. What is income elasticity of demand according to arc method?
8. Prepare a list of determinants of demand.
9. Write any two relationship between price elasticity of demand and marginal revenue.
10. What are the assumptions of indifference curve analysis?

Group "B"

Short Answer Questions: ***[6 × 5 = 30]***

11. Explain the applications of microeconomics in business decision making.
12. Suppose, you are working as a marketing manager of the XYZ company, operating in Kathmandu Valley. You are allowed to a make any strategies to increase its sales from 2500 units/day. Given the price of the commodity as Rs 40 per unit and the firm is spending Rs 200000 per month in promotional expenses. From the past data you have found that price elasticity of demand of the product is 1.5 and advertisement elasticity of demand is 1.25.
    a. If the price has decreased from Rs 40 to Rs 35 per unit? What will be the sales?
    b. If BOD provides you the authority to increase the promotional expenses only by 10%, what will be the sales?
    c. What strategy will you adopt to increase its sales? And why?
13. Derive LAC. Why is it U-shaped?
14. Explain least cost combination of two variable inputs under given production quota.
15. Derive shortrun supply curve of a competitive firm.
16. State and explain the liquidity preference theory of interest.

Group "C"

Comprehensive Answer Questions: ***[2 × 10 = 20]***

17. Suppose Mr. Pranay has Rs 4000 to spend per month on good X and good Y. The per unit price of X and Y are Rs 800 and Rs 400 respectively.
    a. Draw the budget line of Mr. Pranay. Show his equilibrium point when he allocates entire budget equally on two goods X and Y.

b. Suppose price of X falls to Rs 400. Sketch the new budget line. After the fall in price of X, he spends Rs 1600 on good X and Rs 2400 on good Y. Show the new equilibrium point of Pranay.

c. Derive demand curve for good X and also define nature of two goods. *[4+4+2]*

18. Read the cases and answer the questions that follow:

A monopolistic competition market bridges the gap between two extreme forms of market structure like monopoly and perfect competition. The monopolistic competition has elements of both monopoly and perfect competition. Like perfect competition, it assumes that there are large numbers of small sellers. Thus, the action of any single seller does not have a significant effects on other sellers in the market and also line perfect competition, it is assumed that there are many buyers and that resources can easily be transferred into and out of the industry. However, the model of monopolistic competition resembles the monopoly models in that products of individual firms are considered to be slightly differentiated. That is the product of one firm is assumed to be a close, but not a perfect substitute for that of other firms. The result is that each firm faces a demand curve with a slight downward slope, implying that the individual firm has some control over price.

A firm in a monopolistic competition market will try to maximize its profit under various constraints. The firm tries to remain in equilibrium in short run and long run both.

Questions:

a) 'Product differentiation and non-price competition are considered as heart of monopolistic competition'. Justify with suitable examples.

b) Firm compels to operate its plants at sub-optimal capacity and realize only normal profit in longrun. Justify with proper reasons.

c) In what respects, this market differ from monopoly? *[4+4+2]*

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