

MODEL QUESTION

Mid Semester Examination, October 2019

Principles of Microeconomics (HSS 1021)

Semester: First

Full Marks: 30

Branch: CSE

Time: 2 Hours

Answer all questions. Each question carries equal marks.

Q1.	The demand and supply functions for Cadbury chocolate in Bhubaneswar market for an average day are estimated at $Q^d = 1500 - 50P$, and $Q^s = - 500 + 50P$, where Q^d , Q^s and P refers to quantity demanded (No), quantity supplied (No.) and price (Rs.) respectively. Using appropriate diagram, answer the following questions.																												
(a)	Find the market equilibrium price and quantity.	2																											
(b)	Analyse the market for Cadbury chocolate, if its price decreases to Rs. 10 per chocolate?	2																											
(c)	Assume that income of the consumer decreases. Analyse the effect of decreased income on demand, supply, price, quantity demanded and quantity supplied of Cadbury chocolate.	2																											
2.	<p>United Union, a small country produces two commodities, say rice and shirt using a fixed technology. Amount of rice and shirt that can be produced by utilising the available labour, i.e., 5000 is given in the following table.</p> <table><tr><th rowspan="2">Commodity</th><th colspan="6">Production possibilities (alternatives)</th></tr><tr><th>A</th><th>B</th><th>C</th><th>D</th><th>E</th><th>F</th></tr><tr><td>Rice (Kg)</td><td>2000</td><td>1600</td><td>1200</td><td>800</td><td>400</td><td>0</td></tr><tr><td>Shirt (No)</td><td>0</td><td>50</td><td>100</td><td>150</td><td>200</td><td>250</td></tr></table>	Commodity	Production possibilities (alternatives)						A	B	C	D	E	F	Rice (Kg)	2000	1600	1200	800	400	0	Shirt (No)	0	50	100	150	200	250	
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Rice (Kg)	2000	1600	1200	800	400	0																							
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(a)	Draw the Production Possibilities Frontier (PPF) faced by United Union and state why the PPF will take that particular shape?	2																											
(b)	Analyse the situation in terms of feasibility and efficiency, if United Union produces 800 kg of rice and 200 shirts?	2																											
(c)	Assume that labourers (only resource) increases from 5000 to 8000. Analyse its impact on production with the help PPF.	2																											
Q3. (a)	What is the main advantage of using the mid-point method for calculating price elasticity of demand?	2																											

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(b)	150kg of potato demanded in Bhubaneswar market per day, when price of potato is Rs 20 per kg. When potato price decreases to Rs 15 per kg, quantity demanded of potato increases to 200kg. Compute price elasticity of demand coefficient (E_d^P) by using mid-point method and interpret the result.	2																
(c)	Studies indicate that the price elasticity of demand for cigarettes is -0.50. A pack of cigarettes currently costs Rs. 20 and the Government wants to reduce smoking by 10 percent. In which price the cigarettes will be sold per packet, now, to achieve the objective of the Government. (Use percentage method)	2																
Q4. (a)	<p>You like ice-cream and the total utility you derive from the consumption of different units of ice-cream is given in the following table:</p> <table><tr><td>Ice-cream Consumed (No of Cups.)</td><td>1</td><td>2</td><td>3</td><td>4</td><td>5</td><td>6</td><td>7</td></tr><tr><td>Total Utility Derived (Rs.)</td><td>40</td><td>70</td><td>95</td><td>115</td><td>130</td><td>140</td><td>145</td></tr></table> <p>As a rational consumer, determine how many ice-cream would you consume if ice-cream is sold at Rs. 20 per cup?</p>	Ice-cream Consumed (No of Cups.)	1	2	3	4	5	6	7	Total Utility Derived (Rs.)	40	70	95	115	130	140	145	2
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Total Utility Derived (Rs.)	40	70	95	115	130	140	145											
(b)	Government introduces a policy that redistributes income and wealth from the wealthy to the poor. Analyse the likely effect of this policy utilizing the principle you have studied.	2																
(c)	Denise decides to spend three hours working overtime rather than watching a video with her friends. She earns \$10 an hour. Find the opportunity cost of her working.	2																
Q5. (a)	According to a recent study of Chilean bus drivers, drivers who are paid by the number of passengers they transport have higher productivity than drivers who are paid by the hour. This result is an example of which principle of economics?	2																
(b)	Analyse the relationship between household and firm using the simple circular-flow model.	2																
(c)	Suppose that a country that has a high level of output per person agrees to trade with a country that has a low level of output per person. Which country can benefit out of trade?	2																
** End of Questions **																		

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