

Roll No.: 180050069

Name: Niraj Mahajan

Department:

HS 101: Economics

DEPARTMENT OF HUMANITIES AND SOCIAL SCIENCES

Date: February 28th, 2020

Mid-term Examination [Spring Semester 2019-20]

Time: 8.30 am – 10.30 am

Max. Marks: 35

Weightage: 35%

Answer all the following questions.

1) What is Producer Surplus? What is Consumer Surplus? (1+1 = 2 marks)

2) Give four examples where price discrimination is exercised by a monopolist. (2 marks)

3) Consider two companies X and Y. Each of them have the option to either produce High or Low volumes. The respective payoffs are given in the table below, where the first digit in every cell denotes the profit of X in lakhs of rupees, and the second digit denotes the payoff of Y in lakhs of rupees. Both companies want to maximize their payoffs. In this game, find out a Nash equilibrium and explain your answer. (5 marks)

	Y produces High volume	Y produces Low volume
X produces High volume	100, 100	50, 400
X produces Low volume	400, 50	250, 250

4) Mention three reasons for rise of monopoly. (3 marks)

5) Name four factors that are kept constant while constructing the market supply curve. (2 marks)

6) a) What is Substitution Effect?

b) What is Income Effect?

c) Do both of them always work in the same direction? Explain briefly.

[Diagrammatic representations are expected along with precise explanations].

(3+3+2=8 marks)

- 7) Explain in details the circular flow of income between Firms and Households. (5 marks)
- 8) Mention three characteristics of a perfectly competitive market. (3 marks)

Please note the following instructions with regard to questions 9 to 18.

- Each question carries 0.5 marks
- Corresponding to every question, note down on your answer booklet only the best alternative that is correct. If you write more than one alternative, it will be considered as a wrong answer.
- There is negative marking! For every wrong answer, 0.5 marks will be deducted.

- 9) "For a firm under perfect competition, its entire short-run supply curve is given by portion of the marginal-cost curve that lies above average total cost". This statement is

(a) True

(b) False

(c) Indeterminate

- 10) Price discrimination is the business practice of
- a) selling the same good at the same prices to different customers
 - ☒ b) selling the same good at different prices to different customers
 - c) neither of the above

- 11) In the long run, the market supply under perfect competition is

a) Positively sloped

b) Horizontal

c) Neither of the above

- 12) For a monopolist, the following holds true at the profit-maximising point:

a) $AR > MR = MC$

b) $MR=MC > AR$

c) $MR=MC=AR$

- 13) In the long run under perfect competition, the firms make

a) Positive economic profits

b) Zero economic profits

c) Profits that depend on the demand conditions

- 14) Consider two goods, X and Y. The slope of the consumer's budget constraint is measured by the
- a) consumer's income divided by the price of X. α
 - ☒ b) relative price ratio of X and Y. ✓
 - c) consumer's marginal rate of substitution. α

- 15) For a perfectly competitive firm,
- ☒ a) Average Revenue is equal to Marginal Revenue
 - b) Average Revenue never equal to Marginal Revenue
 - c) The relation is not fixed

- 16) If the indifference curve is a straight line, this implies that the two goods are
- a) complements
 - ☒ b) substitutes
 - c) insufficient information is provided to answer

- 17) In the short run, a perfectly competitive firm shuts down whenever
- ☒ a) Price < Average Variable Cost
 - b) (b) Price < Average Total Cost
 - c) Price < Marginal Cost

- 18) If the indifference curve is L-shaped, this implies that the two goods are
- ☒ a) complements
 - b) substitutes
 - c) neither