

2023

ECONOMICS — HONOURS

Paper : CC-8

(Intermediate Microeconomics-II)

Full Marks : 65

The figures in the margin indicate full marks.

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

Group - A

1. Answer *any ten* questions :

2×10

- (a) Explain what is natural monopoly with an example.
- (b) Assume that Marginal cost of the monopolist is 10 rupees. The demand curve faced by him is $p=100-3q$. Find the equilibrium price and quantity.
- (c) For a profit maximising monopolist how is markup pricing related to elasticity of demand?
- (d) Define third-degree price discrimination.
- (e) Calculate the value of Lerner Index when $P (= \text{price}) = \text{Rs.}10$ and $MR (= \text{marginal revenue}) = \text{Rs.} 5$.
- (f) What is the implication of product differentiation in monopolistic competitive market?
- (g) According to Chamberlin why does excess capacity exist in monopolistically competitive market?
- (h) Define conjectural variation in the determination of oligopoly market.
- (i) What is the single most important characteristic in oligopolistic markets and to what problem does it lead?
- (j) What do you mean by bilateral monopoly?
- (k) Why is the production possibility curve concave to the origin?
- (l) Define public good. Give a suitable example.
- (m) Why does externality lead to market failure?
- (n) What do you mean by Free rider problem?
- (o) Explain the difference between adverse selection and moral hazard in insurance markets.

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Group - B

2. Answer *any three* questions :

- (a) Explain whether a monopolist seeking to maximise profit will operate in the elastic or inelastic part of the demand curve.

5

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- (b) In the Stackelberg model, the firm that sets output first has an advantage. Explain why. 5
- (c) How does asymmetric information between buyers and sellers lead to market failure, when a market is otherwise perfectly competitive? 5
- (d) Explain the idea of negative and positive consumption externalities with suitable examples and diagrams. Explain whether the following goods are public or private or common resources : (i) Free vaccination at public health department (ii) Education in private university. 3+2
- (e) What do you understand by dead weight loss under Monopoly with reference to that of perfect competition? 5

Group - C

Answer *any three* questions.MURALIDHAR GIRLS' COLLEGE
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3. (a) (i) Explain with the help of a diagram whether a monopolist has a supply curve. 5
- (ii) A monopolist sells his output in two distinct markets between which price discrimination is possible. His total cost and the two demand curves are given by $TC = 8Q + 100$; $Q_1 = 10 - 0.5P_1$; $Q_2 = 40 - P_2$. Calculate the profit maximising values of P_1 , P_2 , Q_1 , Q_2 . Prove that higher price is charged in the market with the lower price-elasticity of demand. 4+1+1+1+1+2
- (b) (i) Mention any two factors governing the growth of monopoly. 5
- (ii) Suppose the cost and demand functions of a natural monopolist are $LTC = 20q - (\frac{1}{8})q^2$ and $p = 50 - q$ respectively. Determine the equilibrium level of output, price and profit / loss if the monopolist is forced to follow marginal-cost pricing rule. 5
- (iii) In the above problem, if the monopolist follows the average-cost pricing rule, then what will be the equilibrium level of price and output? 2+5+3
- (c) (i) Define Pareto efficiency. Jack has 16 litres of coca-cola and 4 sandwiches. Bob has 4 liters of coca-cola and 8 sandwiches. With these endowments, Jack's MRS of coca-cola for sandwiches is 2 and Bob's MRS of cola for sandwiches is 1. Draw an Edgeworth box diagram to show whether this allocation is Pareto efficient. Explain your answer. 5
- (ii) Show that Pareto Optimality conditions are satisfied under perfect competition. (1+4)+5
- (d) (i) The Kinked demand curve describes price rigidity. Explain how the model works. What are its limitations? Why does price rigidity occur in oligopolistic market? 5
- (ii) Suppose that two identical firms are there, whose cost functions are given by $C_1 = 60q_1$ and $C_2 = 60q_2$, where q_1 and q_2 are output of firm 1 and firm 2 respectively. The inverse demand function of firm's output is given by $p = 300 - q$, where $q = q_1 + q_2$. What are the firm's output in Nash equilibrium of the Cournot model? (3+2+1)+4
- (e) Explain the concepts of monopolistic and monopsonistic exploitation of labour. Can labour union always eliminate such exploitation? 5+5