

GENERAL ECONOMICS-I

2012

Time Allowed : Three Hours

Maximum Marks: 200

INSTRUCTIONS

The Candidates paper consists of three Sections. Candidates should attempt EIGHT parts of the question in Section I, TEN questions from Section II and TWO questions from Section III.

Candidates should attempt questions as per the instructions given in each Section.

The number of marks carried by each question is indicated in each Section.

Answers must be written only in ENGLISH.

Any assumptions made for answering a question must be mentioned clearly.

Any diagrams/graphs to be drawn for answering any question are to be made on the answer book itself and not on a separate graph sheet.

all parts/sub-parts of a question being attempted must be completed before moving on to the next question.

SECTION I

1. Answer any eight of the following parts. Each answer should be in about 50 words. 5x8=40

- Distinguish between Marshallian and Walrasian stability analysis.
- Discuss "Nash-equilibrium" for non-collusive firms.
- What are the basic features and the limitations of Leontiefs input - output model ?
- How can you measure income inequality by using Lorenz curve method ?

(e) Suppose you have a demand function for milk of the form $x_1 = 100 + \frac{m}{100p_1}$ and your weekly income (m) is ₹ 12,000 and the price of milk (p_1) is ₹ 20 per litre. Now suppose the price of milk falls from ₹ 20 to ₹ 15 per litre, then what will be the substitution effect?

- Explain 'dead-weight' loss in a monopoly situation.
- Define the terms 'white noise' and 'random walk' in time series analysis.

- (h) Show graphically on your answer-book that if a consumer buys only two goods, both cannot be inferior at the same time.
- (i) Highlight the role of market signalling when there is asymmetric information.

Section II

Answer any ten of the following questions in about 150 words each.

12x10=120

2. Separate income effect from substitution effect for a price change using (i) Hicks' method (ii) Slutskys method. Hence explain the difference between the two compensated demand curves.
3. Assume that the market demand is $P = 100 - 0.5(X_1 + X_2)$ and the two collusive firms have costs given by $C_1 = 5X_1$ and $C_2 = 0.5X_2^2$. Calculate the joint profit of the firms.
4. Compare different methods of measuring risk aversion.
5. What are 'ridge lines' ? What are their implications in the theory of the firm ?
6. Distinguish between compensating variation and equivalent variation of the budget line. How can you measure consumer's surplus using these two concepts ?
7. Derive an expression for elasticity of factor substitution for C.E.S. production function and use it to establish that Cobb - Douglas production function is a special case of C.E.S. production function.
8. Why is the convexity assumption so important in indifference curve analysis ? In particular, would a consumer equilibrium exist, if indifference curves were concave ? Explain.
9. What is the dual problem in linear programming ? Explain its use with suitable examples.
10. Explain the relationship between slope and elasticity of a straight line demand curve.
11. "In the long run, a perfectly competitive firm will be earning just normal profit." Discuss.
12. What is 'Prisoner's Dilemma' ? Discuss its importance and implications in Game theory.

SECTION III

Answer any two of the following questions. Each answer should be in about 250 words.

20x2=40

13. What is 'moral hazard' problem ? How does it lead to inefficient allocation of resources ? Suggest remedial measures.
14. In a discriminating monopoly, the total demand function is $P = 100 - 2X$ and demand function of segmented markets are
 $P_1 = 80 - 2.5X_1$ and
 $P_2 = 180 - 10X_2$.

The cost function is

$$C = 50 + 40(X_1 + X_2); \text{ where } X_1 + X_2 = X.$$

(Calculate the profit, of the monopolist; (i) with discrimination and (ii) without discrimination.

15. Compare and contrast the theories of social choice as propounded by Professor A.K. Sen and Professor K.J. Arrow.

WORLD OF ECONOMICS, SCO 218, SECTOR 36D, CHANDIGARH, Mob. 86268-10505