

**ST. JOSEPH'S COLLEGE (AUTONOMOUS), BANGALORE-27**  
**B.Sc. ECONOMICS - I SEMESTER**  
**MID-SEMESTER EXAMINATION - AUGUST 2019**  
**ECS 118: MICRO ECONOMICS - I**

**I. Answer any FIVE of the following**

**5x 3 = 15**

1. Distinguish between Static and Dynamic stability of the equilibrium.
2. State the law of diminishing marginal utility with an example.
3. What are the different kinds of preferences in ordinal utility approach?
4. What is Bliss Point? Draw the graph and explain.
5. Assume that there are two goods, x and y. The price of the first good is Rs. 10 and the price of the second good is Rs. 20. The income is  $m=200$ . Write the budget constraint; also determine the slope and the intercepts of the budget line. Graph the budget set also. Now assume that income increases to  $m=300$ . At the same time the price of good 1 increases to 20. Write the equation of the new budget line along with determine the slope and the intercepts of the new budget line. Graph the new budget set as well.
6. Draw the optimal choice of the consumer if the equality condition between slope of the budget line and slope of indifference curve is not satisfied.
7. What is the difference between income consumption curve and price consumption curve?

**II. Answer any ONE of the following**

**15X1 = 15**

8. a. What are the assumptions of Marshallian theory of consumer behavior? 3  
b. Explain with diagram, the equilibrium condition of the consumer using Marshallian theory of Consumer behavior. 8  
c. What are the limitations of Marshallian theory of consumer behavior? 4
9. a. Find the optimum commodity purchased by a consumer (X and Y) whose utility function and budget constraint are the following:  
 $U = (X+2)(Y+1)$  and  $200 = 10X + 20Y$  respectively. 8  
b. Prove that price effect (P.E) is the summation of substitution effect (S.E) and income effect (I.E) using Hicks method. (Assume that consumer has two commodities,  $q_1$  and  $q_2$ , where both the commodities are normal. Prove the above scenario if price of  $q_1$  falls.). 7