

ST. JOSEPH'S COLLEGE (AUTONOMOUS) BANGALORE-27
MID-SEMESTER TEST-AUGUST 2016
M.A. ECONOMICS-I SEMESTER
EC7216: MICROECONOMIC THEORY

Time: 90 minutes

Maximum Marks: 35

PART A

Answer any FIVE of the following:

2X5=10

1. Mention the difference between ordinary demand curve and compensated demand curve.
2. Compute marginal rate of substitution for consumers characterized by the following utility function:

$$U(X, Y) = X^{0.5} Y^{0.5}$$
3. Define elasticity of substitution.
4. Represent the isoquant of a firm that has the following production function:

$$F(K, L) = \min(aK, bL)$$
5. State the law of variable proportions.
6. What are ridge lines?

PART B

Answer any ONE of the following

10X1=10

7. What is 'returns to scale'? Graphically represent returns to scale for a homogenous production function. Also, mention the causes of increasing and decreasing returns to scale.
8. Write a short note on the traditional theory of cost.

PART C

Answer any ONE of the following

15X1=15

9. "Every Giffen good must be an inferior good". Examine this statement theoretically by decomposing the price effect.
10. A consumption bundle, (X_1, Y_1) maximizes Miya's utility, given her budget constraint. If the price of good X increases, assuming that both goods are normal, draw an appropriate diagram showing the income and substitution effects of this price change. How would your answer change, if good X is an inferior good?