Register Number:
DATE: 25-10-18

ST. JOSEPH'S COLLEGE (AUTONOMOUS), BANGALORE-27
M.A. ECONOMICS- I SEMESTER
SEMESTER EXAMINATION: OCTOBER 2018
EC 7218: MICRO ECONOMIC THEORY

Time: 2.5 Hours **Maximum Marks-70**

This question paper has one printed page and three parts

Part A. Answer any five of the following: 2 X 5=10

1. What can be the shape of Engel curve in case of quasilinear preferences?
2. Explain Roy's identity.
3. Distinguish between strong and weak axiom of revealed preference approach.
4. Draw the ridge lines.
5. Explain the Lerner's measure of monopoly power.
6. What do we mean by second-degree price discrimination? Give an example.
7. State Arrows impossibility theorem.

Part B. Answer any three of the following: 10 X 3 = 30

8. Using necessary illustration prove that price effect is the summation income and substitution effects following Hicksian substitution effect (assume one good is inferior and the other good is normal).
9. Examine the relationship among total product, average product and marginal product.
10. Explain 'excess capacity' in the context of monopolistic competition with the help of a graph.
11. Explain how factor prices are determined when a firm using a single variable factor has monopolistic power in the product market and monopsonistic power in the factor market.
12. Consider a multiple-plant monopolist who produces two products x_1 and x_2, whose revenue function is given by $R = 50x_1 + 500x_2 – x_1^2 – x_2^2 – x_1x_2$ and the two cost functions are $C_1 = 3x_1^2 + 33$ and $C_2 = 4x_2^2 + 44$. Find the maximum profit and the quantities that the firm can make.

Part C. Answer any two of the following: 15 X 2 = 30

13. a) Explain the Engel aggregation condition and the Cournot aggregation condition.
    b) Construct ordinary and compensated demand functions for the utility function, $u = 2q_1q_2 + q_2$.
    c) What is Shephard's Lemma?
14. Critically examine Chamberlin's theory of monopolistic competition.
15. What do we mean by Pareto-optimal situation? What are the conditions that need to be satisfied to achieve Pareto-optimal situation? Explain in detail.

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