I Internal Exam -2019
B.A. First Year
MICRO ECONOMICS (PAPER- I)

Time: 1:30 hrs. **Max. Marks: 40**

SECTION –A

1	A
2	B
3	B
4	A
5	B
6	B
7	C
8	C
9	C
10	A
11	C
12	A

SECTION –B

Answer the question, should not exceed 100 words **4*2=8**

Q.1 All the giffen goods are inferior but all inferior goods are not gifffen. How will you explain it?

All Giffen goods are inferior. For a Giffen good, the income effect must be negative; that is a fall in income increases demand. The substitution effect of a fall in a good's own price will lead to an increase in the quantity demanded. As an individual's income rises, the quantity demanded of a good will rise.

Q.2 Explain Static, Comparative Static and Dynamic economic analysis.

Static mean the studies focus only on particular period of time. It is similar to taking a photo when you press the button for a shot then the photo is just at a particular point of time. In economic most paper is a static analysis, for instance, we say the market is in equilibrium when demand and supply equate one another, which is graphically represent by the intersection point of demand and supply curve. This is a static analysis since we just only see the picture at a point of time.

Comparitive Static is a studies which focus on the external force that make the equilibrium in the model change. The external force here refer to exogenous variables.

Dynamic we focus on the change of time and how the equilibrium change with time. It is the same as watching the movie you can see how the image animate and movement. Dynamic analysis allow us to see the path of variable how the variable change with time.

SECTION –C

Answer the following questions. 10*2=20

Q.1 What is meant by elasticity of demand? Explain the various methods of measuring price elasticity of demand.

Price elasticity of demand is a measure of the degree of change in demand of a commodity to the change in price of that commodity.

In other words, price elasticity of demand is the rate of change in quantity demanded in response to the change in the price. It is often referred to as 'price elasticity' and is denoted by Ep or PED.

Methods of Measuring Price Elasticity of Demand

There are basically four ways by which we can measure price elasticity of demand. These methods are:-

1. Percentage method
2. Total outlay method
3. Point method
4. Arc method

Q.2 Explain the law of equi- marginal utility. What are the main limitation?

It is also known as **law** of maximum satisfaction or **law** of substitution or Gossen's second **law**. A consumer has number of wants. He tries to spend limited income on different things in such a way that **marginal utility** of all things is equal.

Though the law of equi-marginal utility appears to be very convincing, the following arguments are advanced against it:

Firstly, the utility derived from commodities is not measurable in cardinal numbers.

Secondly, the marginal utility of money cannot be constant. As the money you possess depletes, the marginal utility of money increases.

Thirdly, even a rational economic individual does not allocate his or her income according to the law. Usually, people tend to spend in a certain rough fashion. Therefore, the applicability of the law is doubtful.

Finally, the law assumes that commodities and their marginal utilities are independent. However, in real life, we see many substitutes and complements. In this case, the law loses its credibility.

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Set-B

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SECTION –A

1	B
2	C
3	A
4	A
5	B
6	B
7	D
8	D
9	D
10	A
11	B
12	A

SECTION –B

Answer the question, should not exceed 100 words. **4*2=8**

Q.1 Differentiate between Microeconomics and Macroeconomics.

Differences based on	Microeconomics	Macroeconomics
Subject – matter:	Small segments such as individual household, individual firm, individual price, etc.	Large aggregates such as aggregate demand, aggregate supply, national income, general price level, etc.
Uses of techniques:	Partial equilibrium analysis	Underemployment of resources
Assumptions:	Full employment in the economy	Underemployment of resources
Core differences	Price is the main determinant of microeconomics.	Income is the main determinant of macroeconomics.

SECTION –C

Answer the following questions. **10*2=20**

Q.1 Write short note on Consumer's surplus.

When there is a difference between the price that you pay in the market and the value that you place on the product, then the concept of consumer surplus becomes a useful one to look at. This is an important idea that you can use on many occasions in your exams.

Consumer surplus and economic welfare

- Consumer surplus is a measure of the welfare that people gain from consuming goods and services
- Consumer surplus is defined as the difference between the total amount that consumers are willing and able to pay for a good or service (indicated by the demand curve) and the total amount that they actually do pay (i.e. the market price).
- Consumer surplus is shown by the area under the demand curve and above the price.

Consumer surplus and price elasticity of demand

1. When the demand for a good or service is perfectly elastic, consumer surplus is zero because the price that people pay matches exactly what they are willing to pay.
2. In contrast, when demand is perfectly inelastic, consumer surplus is infinite. In this situation, demand does not respond to a price change. Whatever the price, the quantity demanded remains the same. Are there any examples of products that have such zero price elasticity of demand? Perhaps the closest we get is a life-saving product with no obvious substitutes - in this situation, consumers' willingness to pay will be extremely high
3. The majority of demand curves in markets are assumed to be downward sloping. When demand is inelastic (i.e. Ped<1), there is a greater potential consumer surplus because there are some buyers willing to pay a high price to continue consuming the product. Businesses often raise prices when demand is inelastic so that they can turn consumer surplus into producer surplus.

Q.2 Explain characteristic of an Indifference Curve.

There are four important properties of **indifference curves** that describe most of them:
(1) **Indifference curves** are downward sloping,
(2) higher **indifference curves** are preferred to lower ones,
(3) **indifference curves** cannot intersect, and
(4) **indifference curves** are convex (i.e. bowed inward).