

2019
ECONOMICS — HONOURS

Paper : CC-1

Full Marks : 65

The figures in the margin indicate full marks.

*Candidates are required to give their answers in their own words
as far as practicable.*

SECTION – A

1. Answer **any ten** questions :

2×10

- (a) What are the four principles of economic decision making?
- (b) How does a production possibility frontier show scarcity and technical efficiency?
- (c) Mention two opportunity costs of building a dam on a river.
- (d) How will the demand for labour be affected if (i) the wage rate declines and (ii) the prices of substitute inputs decline?
- (e) Identify with reason the type of following goods : Congested toll roads and uncongested non-toll roads.
- (f) How is a command economy different from a mixed economy?
- (g) State two factors that might affect elasticity of supply.
- (h) How does an increase in the supply of mobile phones affect total spending on mobile phones if demand is elastic?
- (i) How does a minimum-wage above equilibrium level affect the labour market?
- (j) In a two commodity framework for normal goods, show diagrammatically what happens to a consumer's optimum if all prices and income double.
- (k) Two straight line demand curves originating at the same point on the price axis have same elasticity at a given price. Is it true? Explain.
- (l) Cost of producing smart TV has fallen over time. How it affects the consumer surplus and producer surplus?
- (m) What is the relationship between two goods if MRS between them is zero or infinite?
- (n) Draw the IC for the consumer who does not like pollution, but likes cars.
- (o) When two commodities are perfect substitute to each other, what will be the shape of Income Consumption Curve?

Please Turn Over

SECTION – B

2. Write short notes on *any three* of the following :

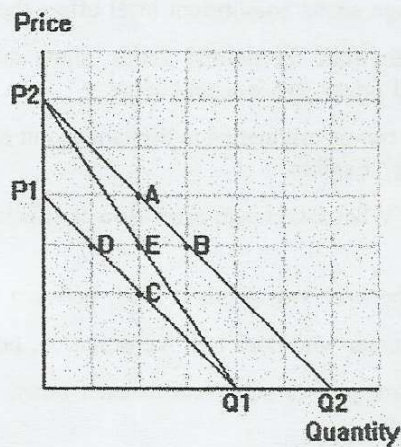
5×3

- (a) Common resources and externality.
- (b) Long-run and Short-run elasticities of supply.
- (c) Price ceiling and its effect on the market outcome.
- (d) All Giffen goods are inferior goods but not all inferior goods are Giffen goods.
- (e) Relation between own price elasticity of demand and Total Revenue.

SECTION – C

Answer *any three* questions

- 3. (a) What is the role of ‘invisible hand’ in a market economy? What is market failure? Explain two main causes of market failure.
- (b) Two individuals *A* and *B* spend their time baking cakes and pizzas. *A* takes 2 hours to bake a cake and 1 hour to bake a pizza. *B* takes 3 hours to bake a cake and 2 hours to bake a pizza. Explain how both of them can gain from trade even though one of them has absolute advantage in producing both. In baking which food will *B* specialize? (2+1+2)+(4+1)
- 4. (a) Technological advance reduced the cost of computer chips. How do you think this affected the markets for computers, computer software and typewriter?
- (b) For standard demand and supply curves, how does per unit tax on the product sold affect the amount of quantity sold, price paid by the buyers, price received by the sellers, total tax payments? (2+2+2)+4
- 5. (a) Define point elasticity of demand. Rank from highest to lowest the absolute values of the price elasticities of demand at points A, B, C, D and E on the three demand curves in the diagram.



- (b) Use the following Table to answer the questions given below :

Good	Cross-price elasticity of demand
Air-conditioning unit and kilowatt of electricity	- 0.34
Coke and Pepsi	+ 0.63

- (i) What does the sign of the cross-price elasticity of demand imply about the relationship of the two pair of goods in question?
- (ii) Use the information in the table above to calculate how a 5% increase in the price of Pepsi affects the quantity of Coke demanded. (1+5)+(2+2)
6. (a) The sales data of a book publishing company produces a demand function $Q = 5000 - 50P$. Find out :
- Demand curve.
 - number of books sold at price ₹ 25.
 - price for sellers to sell 2500 copies.
 - price for zero sales.
 - sales at zero price.
- (b) Explain whether following statements are true, false or uncertain :
- If there is inelastic price elasticity, and price rises, total expenditure will fall.
 - The demand for a commodity increases when price of its substitute increases. [(1+1+1+1+1)+(2½+2½)]
7. (a) The price of X is ₹ 2 for first 200 units and ₹ 1 for all units thereafter. Commodity Y sells at a constant price of ₹ 3.
- Draw the budget line for income of ₹ 600.
 - Is it possible to have more than one equilibrium?
 - Will the consumer ever purchase exactly 200 units of X ?
- (b) If income elasticities for all the goods that a consumer buys are constant and equal, they must be equal to unity.— Is it true?
- (c) Draw a set of ICs for the consumer who likes both tea and biscuits, but always choose to avoid eating them together. (2+2+2)+2+2