

College of Applied Business (CAB)

Sent-up Examination, February 2015

BBA / First Semester / ECO201: Microeconomics

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

Section 'A'

Time: 20 minutes

Brief answer questions:

[10×1=10]

1. Why microeconomics is called price theory?
2. What are the causes for leftward shift in the supply curve?
3. If income increases from 10000 to 20000 and demand of X increases by 100%, calculate elasticity of demand.
4. How do you compute factor intensity with the help of Cobb-Douglas production function?
5. What is budget line?
6. State any two relationships between AR and MR in imperfect competition market.
7. If $MC=20$ and price elasticity =2, calculate equilibrium price.
8. List any two example of oligopoly market
9. Why the AVC curve and AC are closer to closer with respect to rise in production?
10. What forces limit the monopolist's market power in the real world?

Section 'B'

Time: 30 minutes

Short answer questions: Attempt ANY TWO.

[2×5=10]

11. Explain the concept of micro dynamics.
12. How are the price and output determined under monopoly market in long run?
13. Explain the concept and causes of L-shaped LAC.
14. Describe the substitution effect as explain by hicks.

Section 'C'

Time: 80 minutes

Comprehensive answer questions:

[2×10=20]

15. Consider the following preference schedule: (2+2+2+2+2)

Schedule I			Schedule II		
Combinations	X goods	Y Goods	Combinations	X Goods	Y Goods
A	10	72	G	20	90
B	20	42	H	30	62
C	30	20	I	40	44
D	40	8	J	50	30
E	50	4	K	60	22
F	60	2	L	70	16

- a. Graph schedule I and II and label them by IC_1 and IC_2
- b. Sketch the budget line when $P_x = Rs.80$ and $P_y = Rs.40$ and consumer's budget = Rs. 3200 and identify that what combination of X and Y goods will put the consumer at an optimum point at IC_1 ?
- c. Let the price of X goods drops to Rs 40 per unit at constant price of Y goods and consumer's budget. Draw the new budget line and identify that what combination of X and Y goods will put the consumer at an optimum point at IC_2 ? Does it reflect price effect?
- d. Let government imposes 40% tax on consumer's income. Draw new budget line at $P_x = Rs40$ and $P_y = Rs 40$ and also identify that what combination of X and Y goods will put the consumer at an optimum point? Does it reflect income effect?

- e. Indicate the range of substitution effect. Is it proved that price effect is decomposed in to income and substitution effects?

16. A firm can use three different production technologies, with capital and labour requirements at each level of output as follows: [3.5+3.5+3]

- a. Suppose the firm is operating in a high- wages country, where capital cost is Rs. 100 per unit per day and labour cost is Rs 80 per worker per day. For each level of output, which technology is the cheapest?

Daily Output	Technology I		Technology II		Technology III	
	K	L	K	L	K	L
100	3	7	4	5	5	4
150	3	10	4	7	5	5
200	4	11	5	8	6	6
250	5	13	6	10	7	8

- b. Now suppose the firm is operating in a low wage country, where capital cost is Rs 100 per unit per day but labour cost is only Rs 40 per unit per day. For each level of output, which technology is the cheapest?
- c. Suppose the firm moves from a high- wage to a low- wage country but that its level of output remains constant at 200 units per day. How will its total employment change?