

2007
ECONOMICS
FIRST PAPER
(Microeconomic Theory)

Full Marks: 80

Time: 3 hours

The figures in the margin indicate full marks for the questions

1. Answer the following (each within 50 words): 2×4=8
- a) How would you distinguish between a risk lover and a risk averter?
 - b) Under double criteria of compensation principle, when will a change from situation A to B be considered as an improvement?
 - c) According to Ricardo, what happens to the rate of profit in the economy in the long-run?
 - d) What is the basic difference between the Cournot and Stackelberg models of duopoly?
2. Answer any *four* of the following (each within 150 words) : 6×4=24
- (a) Give an outline of the linear expenditure system.
 - (b) Explain how the cost function can be derived from the production function.
 - (c) Illustrate the 'phenomenon of price leadership with the help of anyone of the models.
 - (d) Derive the individual demand curve for a single variable factor under perfect competition.
 - (e) Outline the Walrasian tatonnement process and discuss its limitations.
 - (f) State and illustrate Arrow's impossibility theorem.
3. Answer any *three* of the following (each within 700 words): 16×3=48
- a) Split the effect of fall of price of good on its demand into income and substitution effects. Discuss the nature of the effects for a normal, an inferior and a Giffen good. 7+9=16
 - b) Discuss the different issues involved in the process of determination of price output equilibrium of a firm under monopolistic competition. 16
 - c) Show how a factor can be exploited in a monopsony market. Suggest policy intervention to reduce exploitation. 10+6=16
 - d) Give an outline of an Walrasian economy and explain how the economy can be modelled. Explain why an Walrasian system can at best determine only the relative prices. 4+6+6= 16
 - e) Why is discounting necessary in intertemporal economic analysis? Show how the discounted present value criterion is used for evaluating investment projects. 4+12=16