UNIVERSITY OF THE PUNJAB

First Semester – 2019
Examination: B.S. 4 Years Program

PAPER: Principles of Micro Economics
Course Code: ECON-101-A   Part – I (Compulsory)

MAX. TIME: 15 Min.
MAX. MARKS: 10

Attempt this Paper on this Question Sheet only.
Please encircle the correct option. Division of marks is given in front of each question.
This Paper will be collected back after expiry of time limit mentioned above.

Q.1.   Encircle the right answer, cutting and overwriting is not allowed.   (1x10=10)

i. Curve tracing the utility maximizing combination of two goods as the price of one changes is called_____.
    a) Price consumption curve   b) Income consumption curve
    c) Demand curve   d) Indifference curve

ii. _____ relates quantity of good consumed to income.
    a) Engel curve   b) Supply curve
    c) Demand curve   d) None of the above

iii. _____ is the change in consumption of a good associated with a change in its price, with level of utility held constant.
    a) Income effect   b) Price effect
    c) Substitution effect   d) None of the above

iv. _____ is the good whose demand curve slopes upwards.
    a) Normal   b) Giffen
    c) Inferior   d) None of the above

v. _____ shows the highest output a firm can produce for every specified combination of inputs.
    a) Demand function   b) Supply function
    c) Production function   d) Cost function

vi. _____ is the output per unit of the particular input.
    a) Marginal product   b) Total product
    c) Average product   d) None of the above

vii. Marginal rate of technical substitution (MRTS) _____ as we move down along an isoquant.
    a) Increases   b) Decreases
    c) Remains same   d) None of the above

viii. In case of fixed proportions production function, isoquants are_____.
    a) Vertical   b) Horizontal
    c) L-shaped   d) Positively sloped

ix. The situation in which output more than doubles when all inputs are doubled is called as_____.
    a) Constant returns to scale   b) Increasing returns to scale
    c) Decreasing returns to scale   d) None of the above

x. Actual expenses plus depreciation charges for capital equipment is_____.
    a) Economic cost   b) Opportunity cost
    c) Accounting cost   d) None of the above

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Roll No. ....

PAPER: Principles of Micro Economics

Course Code: ECON-101-A   Part – II

MAX. TIME: 2 Hrs. 45 Min.

MAX. MARKS: 50

ATTEMPT THIS (SUBJECTIVE) ON THE SEPARATE ANSWER SHEET PROVIDED

Q. 2 Give short answers to the following questions.

i) State the Law of Diminishing Marginal Utility. Briefly explain with an example.   **(4)**

ii) Explain the relationship between total utility and marginal utility of a commodity using diagram. **(4)**

iii) Consider the particulars given below:

Coffee		Sandwich	
Cups	Total Utility	Units	Total Utility
1	30	1	13
2	55	2	25
3	75	3	36
4	90	4	46
5	100	5	55

Suppose the price of coffee is $2 per cup while that of sandwich is $1 per unit. Total income of the consumer is $10. Using the Equi-marginal principle, tell the best combination of coffee and sandwich that a consumer will purchase in equilibrium.   **(4)**

iv) What is an indifference curve? Explain why two indifference curves cannot intersect.   **(4)**

v) What is Marginal Rate of Substitution (MRS)? What happens to the MRS as you move along a convex indifference curve?   **(4)**

Q.3: Give brief answers to the following questions.

i). Suppose a firm under monopoly faces the following cost function:

$$C = 100 + Q^2$$

The demand curve is given by:

$$P = 80 - Q$$

a) What is the level of equilibrium output and price?   **(4)**

b) Calculate the firm's profits, total cost, marginal cost and average variable cost.   **(4)**

c) Are the profits really maximum?   **(2)**

(Hint: Check the second order condition for profit maximization i.e. Slope of MR < slope of MC)

ii). Explain the law of variable proportions.   **(10)**

iii). Use demand and Supply analysis to illustrate how each of the following events would affect the price of butter and the quantity of butter bought and sold.   **(5, 5)**

a) An increase in the price of milk.
b) A decrease in income of the consumer.

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Signature of Supdt.:

Q.1.   Encircle the right answer, cutting and overwriting is not allowed.   (1x10=10)

01. By nature, Economic Laws are:

a. Exact   b. Permanent

c. Conditional   d. Quantitative.

02. The characteristic of a commodity to satisfy a human want is termed as :

a. Utility   b. Value

c. Usefulness   d. Wealth

03. The slope of Marginal Utility curve is :

a. Negative   b. Positive

c. Zero   d. Infinity

04. In case of rise in demand , the demand curve shifts:

a. Right   b. Left

c. Both Sides   d. Remains the same.

05. If Income Elasticity is positive , then the nature of Commodity is:

a. Inferior   b. Giffen

c. Superior   d. None of these

06. The sole cause of Expansion and Contraction in Quantity Supply is :

a. Price   b. Population

c. Taxes   d. Technology

07. If the Elasticity of Supply is more elastic, then the Supply Curve is :

a. Flatter   b. Steeper

c. Horizental   d. Vertical

08. The perishable Goods are usually sold in :

a. International Market   b. National Market

c. Local Market   d. None of these

09. The Law of Increasing Returns to scale mostly applies to:

a. Industry   b. Agriculture

c. Trade   d. Construction

10. The necessary condition of firm's equilibrium is :

a. MC=MR   b. MC > P

c. MC> MR   d. MC=AC

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Q2: Precisely answer any five from following short question.

All question carry equal marks.   **(5x4=20)**

A)   Define Marginal Utility?

B)   Define Partnership?

C)   What is meant by Demand?

D)   Define Joint Stock Company?

E)   Define Marginal Revenue?

Briefly explain the following questions.   **(10x3=30)**

Q3: Define and explain law of Diminishing Marginal Utility with the help of Schedule and diagram?

Q4: Explain Market equilibrium with the help of table and diagram?

Q5: Explain the normal profit situation of a perfect competitive firm in short run ?