



UNIVERSITY OF THE PUNJAB

B.S. 4 Years Program : Third Semester – Fall 2021

Roll No.

Paper: Intermediate Micro Economics

Course Code: ECON-201

Time: 3 Hrs. Marks: 60

Q.1. Answer the following short questions:

(6x5=30)

- 1) Indifference curves
- 2) Giffen goods
- 3) Weak axiom of revealed preference
- 4) Slutsky equation
- 5) Increasing vs. decreasing returns to scale
- 6) Cournot equilibrium

Q.2. Answer the following questions.

- 1) Suppose that the price of tea is Rs. 30 and price of a slice of cake is Rs. 60. Also assume that your daily income is Rs. 120. Now suppose that the price of tea increases to Rs. 40.
 - a) Graphically show the original budget set and the new budget set after the increase in the price of tea. [3 marks]
 - b) Graphically show the income effect and the substitution effect. [3 marks]
 - c) Discuss how the change in price of tea cause an increase or decrease in the demand for tea using the income effect and the substitution effect. [4 marks]
- 2)
 - a) Suppose a firm is maximizing profits in the short run with variable input x_1 and fixed input x_2 . If the price of x_2 goes down, what happens to the firm's use of x_1 ? [4 marks]
 - b) What happens to the firm's level of profits? [2 marks]
 - c) By increasing or decreasing its profits, would the firm's stock market value also increase or decrease? [4 marks]
- 3)
 - a) Describe price discrimination and discuss the conditions under which a firm may choose to follow price discrimination strategy. [5 marks]
 - b) Differentiate between first-degree price discrimination, second-degree price discrimination, and third-degree price discrimination. [5 marks]