



# UNIVERSITY OF THE PUNJAB

Fifth Semester – 2019

Examination: B.S. 4 Years Program

Roll No. in Fig. ....

Roll No. in Words. ....

**PAPER: General Equilibrium and Welfare Economics** MAX. TIME: 15 Min.  
**Course Code: ECON-304 Part-I (Compulsory)** MAX. MARKS: 10

Signature of Supdt.:

**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. The slope of the utility possibility frontier is  
(a) positive. (b) negative. (c) zero. (d) undefined.
- II. General equilibrium analysis is different from partial equilibrium analysis in that general equilibrium analysis  
(a) explicitly takes feedback effects into account and partial equilibrium analysis does not.  
(b) does not take into consideration specific problems, but partial equilibrium analysis does.  
(c) takes into consideration specific problems, but partial equilibrium analysis does not.  
(d) allows one to arrive at a specific conclusion, but partial equilibrium analysis does not.
- III. Efficiency in consumption requires  
(a) that some goods are scarce. (b) luck. (c) that MRS are equal for all consumers. (d) that  $MRS = MRT$ .
- IV. In a problem involving exchange, the contract curve shows  
(a) all exchanges that make both parties better off.  
(b) the one exchange that makes both parties better off.  
(c) all possible allocations of goods between both parties.  
(d) all possible efficient allocations between both parties.
- V. Suppose Kelly and Jerry are at an allocation bundle where their MRS are not equal. Then:  
(a) they are happy. (b) they are outside the Edgeworth box.  
(c) there are gains from trade. (d) there is an equilibrium.
- VI. The main point of the second theorem of welfare economics is that:  
(a) efficiency is more important than equity.  
(b) efficiency may be achieved, but equity is not a feasible goal.  
(c) any attempt to achieve an equitable outcome must occur off the contract curve.  
(d) any equitable outcome can be achieved by reallocating the resources among the members of a society.
- VII. The first theorem of welfare economics states that:  
(a) a competitive equilibrium is Pareto efficient.  
(b) all prices are equal in a competitive equilibrium.  
(c) a competitive equilibrium maximizes the supply of goods.  
(d) a competitive equilibrium maximizes profits.
- VIII. A pure private good is  
(a) nonrival in consumption and subject to exclusion. (b) rival in consumption and subject to exclusion.  
(c) rival in consumption and not subject to exclusion. (d) all of the above
- IX. An allocation in which one person can be made better off only by making someone else worse off is  
(a) inefficient. (b) efficient. (c) a partial equilibrium. (d) a general equilibrium.
- X. Which of these statements is generally accepted by economists? Perfect competition  
(a) provides both equity and efficiency.  
(b) provides equity but not necessarily efficiency.  
(c) provides efficiency but not necessarily equity.  
(d) generally satisfies neither efficiency nor equity.



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**PAPER: General Equilibrium and Welfare Economics**

**Course Code: ECON-304 Part – II**

**MAX. TIME: 2 Hrs. 45 Min.**  
**MAX. MARKS: 50**

**ATTEMPT THIS (SUBJECTIVE) ON THE SEPARATE ANSWER SHEET PROVIDED**

**Q.2. Questions with short answers.**

**(5 x 4 = 20)**

- i. Differentiate between general equilibrium analysis and partial equilibrium analysis?
- ii. What is the difference between equity and efficiency?
- iii. What is the difference between first and second fundamental theorems of welfare economics?
- iv. Differentiate between production efficiency and product mix efficiency?
- v. Discuss Pareto optimality criterion of social welfare.

**Q.3. Questions with long answers.**

**(3 x 10 = 30)**

- (i) Explain the Bentham's and Bergson criterion of social welfare. (10)
- (ii) Using an Edgeworth box, illustrate and explain the concept of Pareto efficiency. (10)
- (iii) Are competitive markets Pareto efficient? Explain (10)