

UNIVERSITY OF THE PUNJAB

B.S. 4 Years Program / Third Semester – Spring 2022

Roll No. Time: 3 Hrs. Marks: 60

Paper: Intermediate Micro Economics

Course Code: ECON-201

THE ANSWERS MUST BE ATTEMPTED ON THE ANSWER SHEET PROVIDED

Q.1. Answer the following short questions:

(6x5=30)

- 1) Budget line
- 2) Cross price elasticity of demand
- 3) Giffen goods
- 4) Slutsky equation
- 5) Principle of Increasing marginal utility cost in reference to Production Possibility Curve
- 6) Pareto Optimal Allocation
- Q.2. Answer the following questions.
- 1) Suppose that the price of coffee is Rs. 30 and price of a donut Rs. 60. Also assume that your daily income is Rs. 120. Now suppose that the price of coffee increases to Rs. 40.
 - a) Graphically show the original budget set and the new budget set after the increase in the price of coffee. [3 marks]
 - b) Graphically show the income effect and the substitution effect. [4 marks]
 - c) Compute cross price elasticity of demand for donut due to change in price of coffee. [3 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) Graphically show the profit maximizing situation of a firm (operating in perfect competition) where the firm is suffering from losses but is not shut down. [5 marks]