

**Department of Economics**  
**Central University of Jammu**

End Term Examination 2017

M.A Economics Semester-II

Course No. PGECO2C001T

Course Title: Microeconomic Theory and Applications

Time Allotted: 3 hours

Max Marks: 100

**Section A- Each part of this question carries 1.5 marks.**

**1.5\*10=15**

Q1) Encircle the correct answer

- i) Bain's "Condition of Entry" was defined as the margin by which established firms could raise their price above the competitive price level persistently without attracting entry. That is
- a)  $P_L = P_C(1 + E)$    b)  $P_C = P_L(1 + E)$    c)  $P_L = P_C(1 - E)$    d) None of these
- ii) Linear Programming is a technique for solving constrained optimization problems when the objective function and constraints are \_\_\_\_\_.
- a) Quadratic                      b) Exponential                      c) Non Linear                      d) Linear
- iii) The total sales revenue is maximum where elasticity of demand equals to \_\_\_\_\_ and the slope of the TR curve is equal to \_\_\_\_\_.
- a) Zero, One                      b) One, Zero                      c) One, One                      d) One, One
- iv) If production or consumption involves a positive externality, then the competitive output will be \_\_\_\_\_ than/to socially optimal output.
- a) Equal                      b) More                      c) Less                      d) None of these
- v) Which of the following models stresses the trade-off between the growth rate and the valuation ratio of the firm?
- a) Baumol's Model                      b) Williamson's Model                      c) Marris's Model                      d) None of these
- vi) A lump-sum profit tax will not affect output under \_\_\_\_\_ maximization but may reduce output under \_\_\_\_\_ maximization.
- a) Sales, Profit                      b) Profit, Sales                      c) Utility, Profit                      d) None of these
- vii) Under competition, the input supply curve facing the firm is \_\_\_\_\_.
- a) Perfectly Inelastic                      b) Perfectly Elastic                      c) Unitary Elastic                      d) None of these



Q6) Discuss risk pooling and sharing as methods of reducing risk in the insurance markets.

Or

Why can asymmetric information between buyers and sellers lead to market failure when a market is otherwise perfectly competitive?

**Section C: Long Answer type Questions**

*Note: Attempt any three questions*

*15\*3=45*

Q7) Discuss marginalist controversy? Give a comparison between marginalism and average cost pricing. Provide supportive evidence in favour of full cost pricing principle along with its criticism.

Q8) Differentiate between partial and general equilibrium. Give excess demand approach to general equilibrium analysis.

Q9) What is the Pareto efficiency? Discuss the advantages and disadvantages of the Pareto efficiency as a tool of management description. Discuss the idea that competitive market equilibrium leads to Pareto efficient allocation. Under what conditions you should agree with such a viewpoint.

Q10) Assume that workers whose incomes are less than Rs 10,000 currently pay no income taxes. Suppose a new government program guarantees each worker Rs 5000, whether or not he or she earns any income. For all earned income up to Rs 10,000, the worker must pay a 50% tax. Draw the budget line facing the worker under this new program. How is the program likely to affect the labor supply curve of workers?

Q11) What do you mean by Asymmetric information? With the help of Lemons problem, explain how asymmetric information leads to adverse selection.