

Bangabasi College
Test Examination, 2014
B.Sc (Hons.) (1+1+1 System), Part II
ECONOMICS (Hons)

Full marks: 50 + 50

Time: 4 Hrs.

Section A

1. Answer any *five* questions (5 × 4):

- (a) Data obtained of a firm is as follows: $MP_L = 10$, $MP_K = 15$, $P_L = \text{Rs } 20$, $P_K = \text{Rs } 15$. Explain why these data prove that the firm is run inefficiently. How would you improve efficiency if you are put in charge of the firm?
- (b) Answer whether the following statements are true or false or uncertain stating reasons:
- (i) The positive difference between price and marginal cost indicates the degree of power enjoyed by the monopolist.
- (ii) If $MR=MC$, firms will necessarily make profit under perfect competition. (2+2)
- (c) Explain the differences in the characteristics of a monopolistically competitive firm and perfectly competitive firm?
- (d) A loss making perfectly competitive firm in the short run would shut down operation. Do you agree?
- (e) Under a constant cost industry, explain the nature of long run supply curve in a perfectly competitive market structure.
- (f) Draw the indifference maps indicating the direction of preferences in the following cases: (i) Puja does not like apple juice or pineapple juice alone but likes to have a mocktail of them. (ii) Sreyasi likes more money to less. She also likes to watch good movies but only up to 3 movies a day, after which she gets sick. (2+2)
- (g) What is Balanced Budget Multiplier?
- (h) Consider an economy described by the following equations $Y = C+I+G$; $Y = 5000$; $G = 1000$; $T = 1000$; $C = 250+0.75(Y-T)$; $I = 1,000 - 50r$. (i) In this economy, compute private saving, public saving and national saving. (ii) Find the equilibrium interest rate.
- (i) The government raises taxes by Rs 10 billion. If the marginal propensity to consume is Rs 0.6, what happens to (i) national savings and (ii) investment?
- (j) Suppose the expected inflation is 5% and real interest rate agreed upon by the borrower and lender 5%, what will be the nominal interest rate? If actual inflation turns out to be 7%, who will be the gainer and loser? (2+2)
- (k) Suppose that money demand depend only on income and not on interest rates. (i) What does the LM curve look like in this case? (ii) Show graphically that G has no effect on the level of output. What does G affect? (2+2)

2. Answer any *three* questions (3 × 10):

- (a) Consider the cost function $C(x) = 15x - 6x^2 + x^3$. Is it a short-run or long-run cost function? Find out the average cost and marginal cost. Find out the value of x for which AC is minimum and show that $MC = AC$ at this stage.
- (b) Explain the pattern of utility functions when the consumer is (i) risk-averter, (ii) risk-neutral and (iii) risk-lover. Suppose that an individual's utility function is $U(w) = w^2$. Is the person a risk lover? Will he accept a gamble where there is a chance of winning Rs 20 and of losing Rs 20 with equal probability, if his initial wealth is Rs 100?
- (c) (i) Sumit faces a two commodity world of X and Y. His income is Rs 1000 and P_X and P_Y are Rs 25 and Rs 40 respectively. The bundle that gives greatest satisfaction contains 10 units of Y. What will be the optimum bundle of X for Sumit? Graph the budget set and the optimum bundles. (ii) If the price of X

decreases to Rs 20, Sumit's new optimum bundle contains 11 units of Y. How much X does Sumit's new optimum bundle contain? Graph the new budget set and the optimum bundles.

- (d) Consider the cost function $C(q) = q^3 - 60q^2 + 1500q + 150$; Find out the variable cost, fixed cost, average variable cost, average fixed cost, average cost, and marginal cost. Explain the reason behind the U-shape of Short-run Average Cost curve.
- (e) Explain how an investor settles at different equilibria for different interest rates with the help of Tobin's portfolio theory of money demand.
- (f) Explain the view that "natural rate of unemployment is common in every economy"
- (g) In the Keynesian cross, the consumption function is given by $C = 200 + 0.75(Y-T)$, $T = 10 - 0.25Y$ and $I = 100$. (i) Graph the planned expenditure as a function of Y. (ii) What is the equilibrium level of income? (iii) If Government purchases increase to 125, by how much equilibrium income rise? d) What level of government purchases is needed to achieve an income of 1600?

Section B

3. Answer any *five* questions (5×4):

- (a) Distinguish between the notions of economic growth & economic development.
- (b) Mention the variables that are taken into consideration for measuring HDI.
- (c) Indicate the pattern of change in the occupational structure while a country ascends from less developed to developed status.
- (d) State any one criticism against the Rostow's stage theory.
- (e) How can land-labour ratio affect agricultural productivity?
- (f) Distinguish between ACOR and ICOR.
- (g) Mention any two features of green revolution.
- (h) State the reasons behind the deceleration of Indian industries in mid-sixties?
- (i) State two main reasons behind disinvestment in Indian industries.
- (j) Mention any two schemes implemented by the Government for generating rural employment in India.
- (k) Define the new strategy introduced in the Fourth Five Year plan.
- (l) State one cause of the crisis of Indian economy during the 7th five year plan.

4. Answer any *three* questions (3×10):

- (a) Explain the capabilities approach towards economic development.
- (b) Explain the notion of poverty trap as explain by Nurkse. Explain the relevance of "big push theory" of Rosenstein Rodan in overcoming this trap.
- (c) Explain the Fisher-Clark views regarding the economic transition of a country.
- (d) Explain the relationship between industrial growth, GDP growth and productivity growth in an economy with the help of Kaldor's Growth Laws.
- (e) Analyse Arrow's concept of 'learning by doing' Explain the role of investment in education towards the expansion of human capital.
- (f) What is the meaning of choice of technique problem? Discuss the situations where a labour-surplus economy may choose capital-intensive technology instead of labour-intensive technology.
- (g) Critically analyse the process of industrialization and rural-urban migration in a labour-surplus economy on the basis of Lewis' model.
- (h) Describe the features of Indian economy on the eve of independence with a reference to the colonial rule.
- (i) "Indian plans are good in paper but are not so good in implementation"—logically explain the statement.
- (j) What were the structural constraints to the implementation of developmental planning in India?