1

Paper II Economics 58315

Solution Set 3 **QP code:**

Q1. A. Consumer's equilibrium with the help of indifference curve analysis with help of diagram and necessary condition: MRSxy=Px/Py and sufficient condition at point of tangency indifference curve must be convex to origin.

B. Law of equi-marginal utility with respect to more than one commodity

MUx/Px=MUy/Py=MUz=/Pz=Mum to be explained with example.

C. Concept of budget constraint Price line to be explained with diagram.

Q2. A. Properties of isoquants- slope downwards from left to right, convex to origin, do not touch both axis and they do not intersect.

B. Law of variable proportions- output is increased by increasing units of variable factor keeping other factors fixed explain with example and diagram.

C. Cobb-Douglas Production function equation and characteristics to be explained.

Q3. A. Relationship between average cost and marginal cost- to be explained with diagram and example.

B.

Quantity Q	Total fixed cost	Total Variable cost	Total cost=TFC+TVC	Marginal cost	Average fixed cost=TFC/Q	Average variable cost=TVC/Q	Average total cost=AFC+AVC
1	100	30	130	30	100	30	130
2	100	55	155	25	50	27.5	77.5
3	100	70	170	15	33.33	23.33	56.66
4	100	90	190	20	25	22.5	47.5
5	100	100	200	10	20	20	40
6	100	135	235	35	16.66	22.5	39.16
7	100	175	275	40	14.28	25	39.28

C. Behaviour of TR, AR and MR under perfect competition to be explained with diagram and example.

Q4. A. Derivation of short-run supply curves of a firm and industry- to be explained with diagram.

B. Equilibrium of a firm under competitive market with the help of TR-TC approach to be explained with diagram.

C. Consumer's surplus concept, equation to be explained with example and diagram.

Q5.A. Giffen Paradox concept price and income negative effect to be explained with diagram.

B. Iso-cost line-combinations of labour and capital that a firm could buy with given amount of money and factor prices to be explained with diagram and slope of isocost line as well given the monetary resources if factor prices change then slope of isocost line will change to be explained with diagram.

C. Opportunity cost concept to be explained with examples.

D. Economic efficiency in market to be explained with consumer and producer surplus.