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Solution Paper II Economics 58316

Set 2

Q1. A. Consumer's equilibrium with the help of utility analysis to be explained MUx=Px.

B. Properties of indifference curves- slope downwards from left to right, convex to origin and they do not intersect.

C. Substitution effect to be explained with the help of a diagram.

Q2. A. Cobb-Douglas production function equation and characteristics to be explained.

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

C. Law of returns to scale- increasing, constant and decreasing to be explained with diagram.

Q3. A.

| 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 | 70 | 30 | 100 | 30 | 70 | 30 | 100 |
| 2 | 70 | 55 | 125 | 25 | 35 | 27.5 | 62.5 |
| 3 | 70 | 80 | 150 | 25 | 23.33 | 26.66 | 49.96 |
| 4 | 70 | 100 | 170 | 20 | 17.5 | 25 | 42.5 |
| 5 | 70 | 135 | 205 | 35 | 14 | 27 | 41 |
| 6 | 70 | 150 | 220 | 15 | 11.66 | 25 | 36.66 |
| 7 | 70 | 170 | 240 | 20 | 10 | 24.28 | 34.28 |

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

C. 'MR curve will cut the middle of any perpendicular drawn from AR curve to the Y-axis' to be explained with diagram.

Q4. A. Competitive market price equals marginal cost- to be explained with diagram.

B. Short-run equilibrium of a firm under differential cost conditions- excess profit, normal profit, loss and shut down point to be explained with diagram.

C. Concept and measurement of consumer's surplus- to be explained with diagram.

Q5. A. Inferior Goods- concept to be explained that negative income effect is weaker to strong substitution effect with diagram.

B. Cost minimisation and Producer's equilibrium to be explained with respect to minimum cost to produce given output.

C. Relationship between AC, AFC, AVC and MC in the short-run explain with diagram.

D. Characteristics of a competitive market- large no of buyers and sellers, homogeneous goods, complete market information, no barriers to entry, no govt interference, no transport costs and perfect mobility of factors of production.