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Model Answer Key

Q.P. Code 53238

MICRO ECONOMICS - II

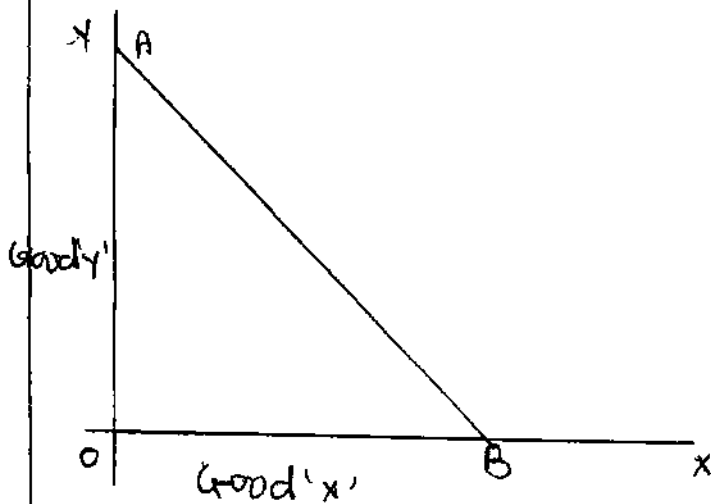
S.Y.B.A.

SEMESTER - III

A Budget line -

"The budget line is the locus of points representing all the different combinations of the two goods that can be purchased by the consumer given his money income and prices of the two goods"

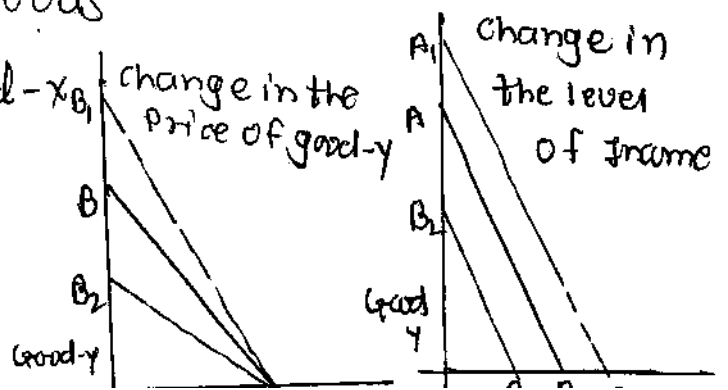
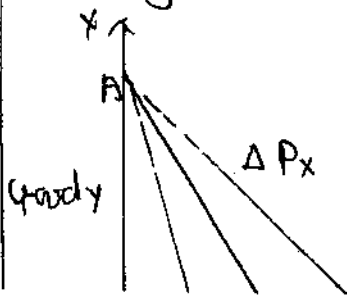
Budget line



I) Shift in the Budget line

1) change in the price of goods

2) change in the price of good -  $X_B$

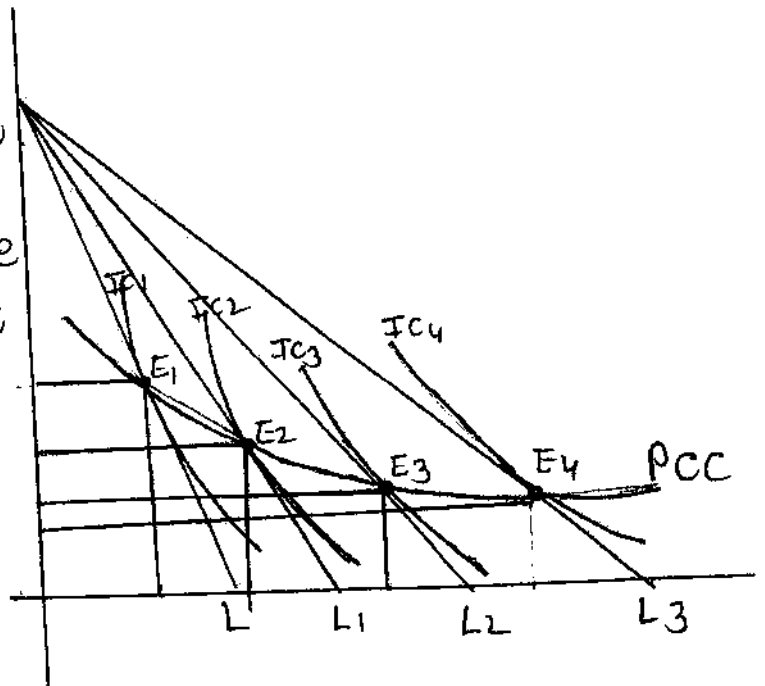


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### b) Price Effect

Price effect is the change in the quantity demanded of any good due to a change in its price, assuming that the money income of the consumer and the prices of other goods remaining constant.



C) Price of X is Rs 2

1) Price of Y is Rs 3

Amita has an income of Rs 14 to spend the goods.

$$X, 4 \times 2P = 8$$

$$Y, 2 \times 3P = 6$$

Amita will purchase 4X goods & 2Y goods

2) Maximum utility

$$4, X = 28$$

$$2, Y = 42$$

So total utility is 70

3) Cardinal utility - According to classical economists utility is a quantitative concept and that it can be measured in terms of a number. Hence they developed the concept of measuring utility through cardinal approach example-1, 2, 3 etc

A ISOQUANT

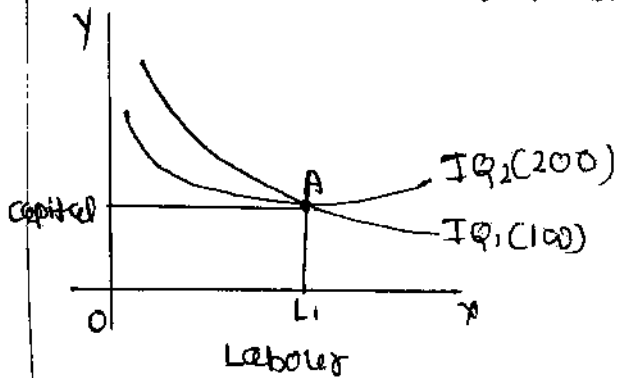
## Properties of ISOQUANTS

1) ISOQUANTS has negative slope

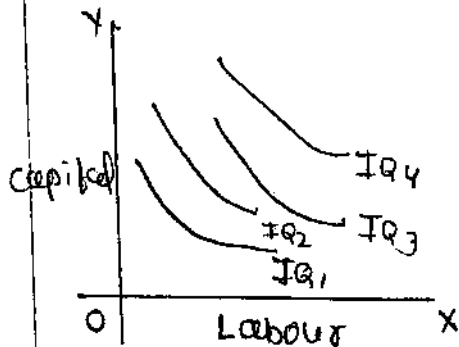


2) Isoquant is convex to origin

3) Two ISOQUANTS not Intersect Each other



4) ISOQUANTS Need not be parallel



5) Higher ISOQUANT curves Represent Higher level of output



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1) Law of returns to scale

Assumptions

- I) Constant Technology
- II) Factor proportions are Variable
- III) Homogeneous factor units.
- IV) Short-Run

• Explain with Diagram

- 1) Increase Returns (Stage I)
- 2) Diminishing Returns (Stage II)
- 3) Negative Returns (Stage III)

2) Cobb-Douglas production function

- Definition
- Equation
- Properties of Cobb-Douglas Production Function:

A Explain Revenue - Types

1) Total Revenue

$$TR = Q \times P$$

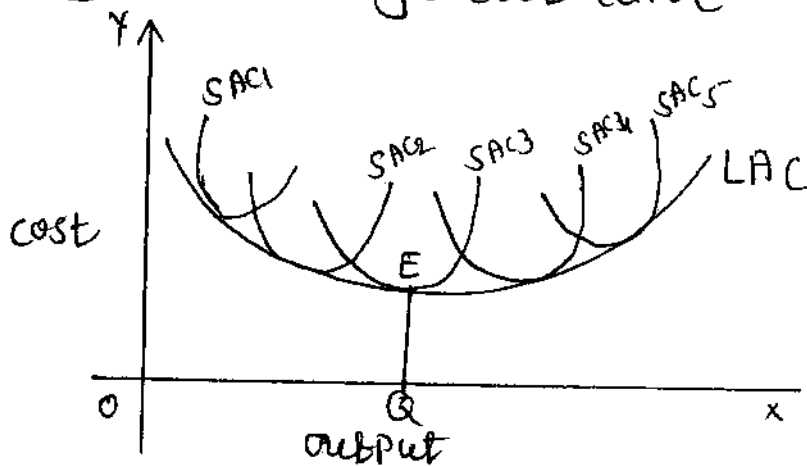
2) Average Revenue

$$AR = \frac{TR}{Q}$$

3) Marginal Revenue

$$MR_n = TR_n - TR_{n-1}$$

B Long run average cost curve



C

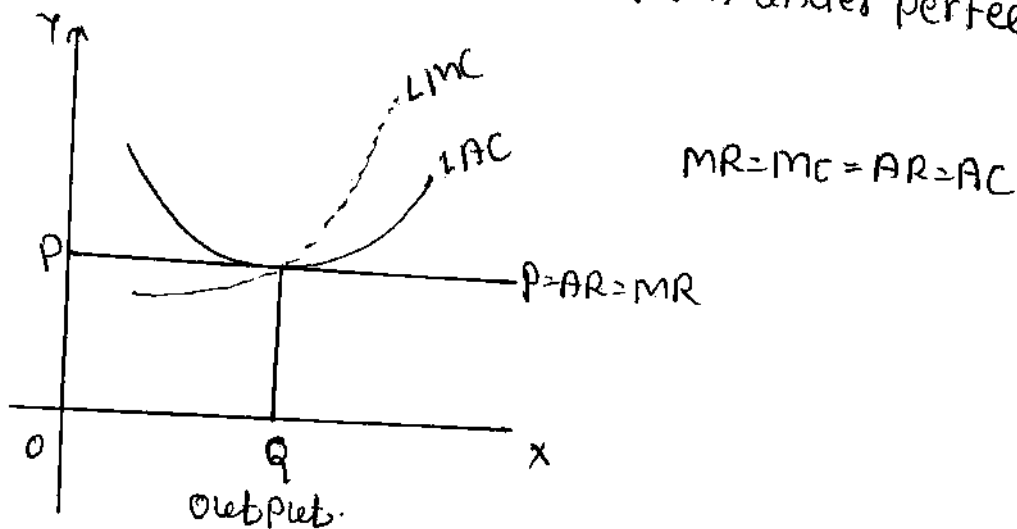
unit of outputs	TFC	TVC	TC	AFC	MC
0	360	—	360	—	—
1	360	180	540	360	180
2	360	240	600	180	60
3	360	270	630	120	30
4	360	315	675	90	45

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a) Characteristics of a perfectly competitive market?

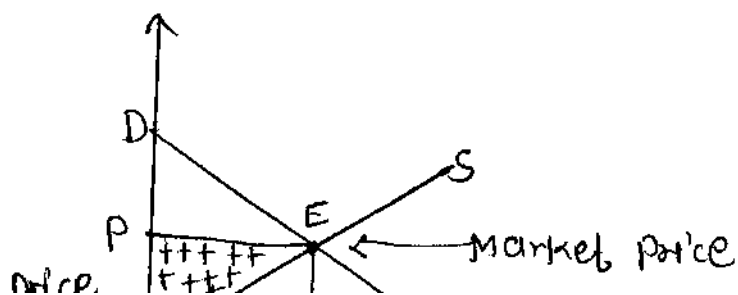
- 1) Large number of buyers and sellers.
- 2) Homogeneous product.
- 3) Perfect knowledge of the market.
- 4) Free Entry and Free Exit of firms.
- 5) ~~AB~~ Absence of Government Regulations.
- 6) No Transport cost.
- 7) Absence of Price control.

b) Long run equilibrium of firm under perfect competition.



c) Producer's Surplus

Producer's surplus = Receipts of producer price - Minimum supply

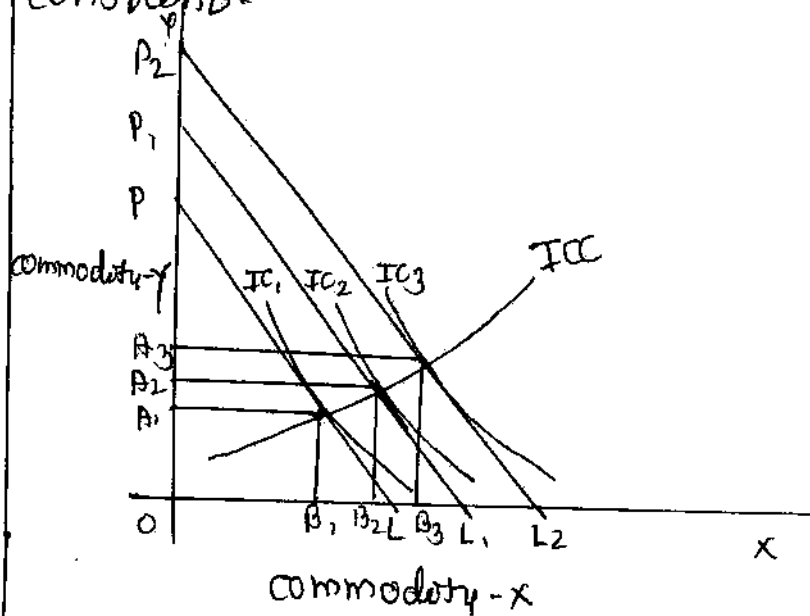


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Short notes

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a) Income Effect - Income effect is the change in the demand for a commodity due to a change in the money income of the consumer, the prices of goods remaining constant.



b) Production function

Production function refers to the functional relationship between physical rate of inputs and output of a firm, under the given technology per unit of time.

In symbolic term the production function is written as -

$$Q_x = f(a, b, c, d, \dots, n, T)$$

$Q_x$  = physical quantity of output of commodity x

$f$  = functional relationship

$(a, b, c, d, n)$  = The quantities of various inputs

$T$  = Given technology.

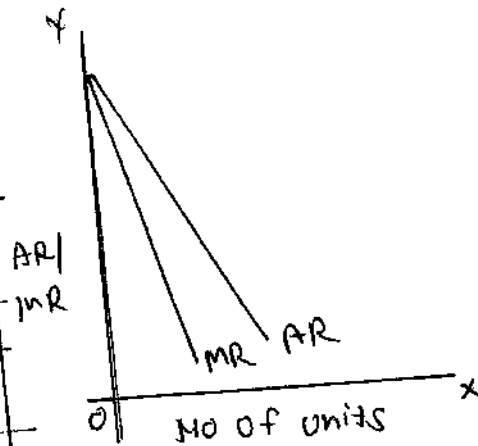
Two factor model

$$Q_x = f(L, K)$$

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c) AR and MR under monopoly

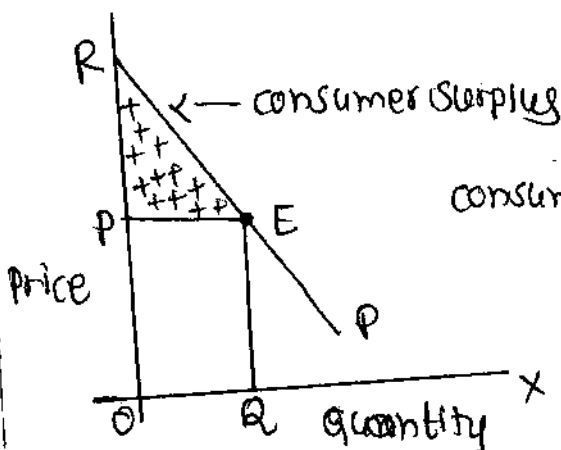
Q	AR (P)	TR	MR
1	10	10	10
2	09	18	08
3	08	24	06
4	07	28	04
5	06	30	02
6	05	30	00



- 1) Under monopoly can sell more only by lowering its price
- 2) Therefore the average revenue curve is downward slo and its corresponding marginal revenue curve lies below it-
- 3) In table AR falls by 1 at a time whereas MR falls by 2 at each stage.

d) consumer's surplus

consumer's surplus is the difference between the marginal valuation of a unit and the price which is actually paid for it.



consumer surplus = The price the consumer is willing to pay - The price which be actually pays