	UPES

Course: – Microeconomics II

Program B.A. Econ. HonsSemester: II **Max Marks: 100**
Course code: ECON 1007 **Time: 03 hrs.**
No of Pages: 4
Instructions: All the Questions are compulsory

Section A (20 marks)

1.	If input A is the only variable input for an imperfect competitor firm in the factor market, the firm's demand curve for inputs A is given by its- a. VMP curve b. MRP curve c. MFC curve d. none of the above	[1]	CO1
2	Ricardo proposed his theory of rent by introducing different types of land on the basis of a. Size b. Fertility c. Land Holdings d. None of the above	[1]	CO1
3.	In a perfectly competitive market a firm in the long run operates at a. AC=MC b. AR=MR c. MR=MC d. P=AR=SMR=SAC=LRAC=LRMC	[1]	CO1
4	A collusion is tacit when a. demand curve of a firm in the collusion is kinked b. Firms engage in price war c. Firms do not document their agreement to collude d. Member firms cheat on each other	[1]	CO1
5	A large reduction in price by a firm in monopolistic competition would lead to a. No effect on customers b. Attract a small number of customers from rivals c. Attracting all customers from rivals d. Attracting large number of customers from rivals	[1]	CO1
6	Demand for factor inputs is a. Independent demand b. Derived demand c. Dependent demand d. Inelastic demand	[1]	CO1
7.	All of the following EXCEPT one pose a constraint in developing a model to explain Oligopoly a. Indeterminate demand curve b. Formation of Cartel c. Tendency to influence market conditions d. Fear or price war	[1]	CO1
8	Product homogeneity does not include; a. Minor changes in the same generic product b. No change in the same generic product c. Preference over any one product d. Different prices for different products	[1]	CO1
9	The marginal productivity theory of distribution is applicable to a. Labour b. Land c. Capital d. All the factors of production	[1]	CO1
10	A perfectly competitive firm can sell all the output it wants a. By cutting down supply of output b. By lowering its cost of production c. By lowering price it charges for each extra unit to be produced	[1]	CO1

	d. Without lowering price	
11	The extreme case of non-price competition in an Oligopoly is a. Formation of duopoly b. Formation of Cartel c. Interdependent decision making d. Attaining economies of scale	**[1] CO1**
12	Economic rent is the amount a factor earns over and above it a. Basic earning b. Marginal revenue c. Transfer earning d. Profit	**[1] CO1**
13	A monopolistically competitive firm earns supernormal profit in short run because of a. Product differentiation b. Free entry and exit of firms c. Imperfect knowledge d. Independent decision making	**[1] CO1**
14	A perfectly competitive firm would shut down if a. AVC<AR b. AVC>AR c. AVC=MC d. AVC< MC	**[1] CO1**
15	Elasticity of products under monopolistic completion is a. Equal to one b. Less than one c. Equal to Zero d. More than 1	**[1] CO1**
State True (T) or False (F)		
1	Interest the compensation for a sum of money lent.	**[1] CO1,2**
2	The demand curve in oligopoly is more elastic above the kink and less elastic below the kind.	**[1] CO1,2**
3	Quasi rent accrues to land.	**[1] CO1,2**
4	The government sets the price of the product in a perfectly competitive market.	**[1] CO1,2**
5	Economic profit is the excess of revenue over explicit costs of production.	**[1] CO1,2**
	Section B(10 marks)	
1	Define 'value of marginal product (VMP).	**[2] CO 2**
2	State the difference between 'stable' and 'unstable' equilibrium.	**[2] CO 2**
3	What is the relationship between the slope of average revenue and marginal revenue curves in the monopoly.	**[2] CO4**
4	It is said that perfect competition is not possible in real world. Is it then unnecessary to study this market structure? State the reason for your answer.	**[2] CO4**
5	Why does Oligopoly market structure has so many different models as compared other structures where equilibrium can be explained with a specific definite relationship?	**[2] CO4**
	Section C (35 marks) **Attempt any 5 questions**	
1	How is price determined in perfectly competitive market? Do they attain supernormal profits in long run? Explain the reason and equilibrium with the help of diagram.	**[7] CO 2,4**
2	Define 'selling costs'. What is objective of selling cost (advertisement) in monopolistic competition? State the difference between 'selling cost' and 'production cost'.	**[7] CO2,3,4**

3	Mention four factors of production (FOP) and explain what returns are earned for utilizing them. Why are these FOPs priced accordingly?	**[7] CO 2,4**
4	How is wage determined under perfect competition in labor market? At what level does long run equilibrium established between demand for and supply of labor?	**[7] CO 2,4**
5	Explain the motives of holding money under 'liquidity preference theory of interest' suggested by Keynes.	**[7] CO 2,4**
6	"It is always better for firms to compete on the basis of output rather than price in oligopoly" Explain the statement with the help of appropriate models.	**[7] CO 2,4**
	Section- D (35 marks)	
1.	Critically explain the improvement made in modern theory of rent over Ricardo's theory of rent ?	**[20] CO 2,3**
2	**Case Study:** De Beers is a South Africa based company that, until the late 1990s, had a near monopoly on the sale of diamonds worldwide. De Beers had exclusive rights to mining in Africa, producing about 80 per cent of the quantity and over 95 per cent of the dollar value of diamonds worldwide. Most diamonds were sold through its London office. By effectively managing a cartel of the major producers in Africa, De Beers maximized profits by reducing the quantity of diamonds sold, thereby raising prices. As one might expect, as a near monopolist in the market for newly minded diamonds, De Beers made enormous profits for many years. New developments since that time have threatened De Beer's monopoly. De Beers also had the rights to sell diamonds mined in the Soviet Union. However, when the Soviet Union collapsed, De Beers was unable to enforce those agreements. The flow of Russian diamonds increased dramatically, outside of De Beers's control. Several jewelry companies, including Tiffany integrated backward into mining to avoid acquiring diamonds from De Beers. In 2004 Namibia passed a law requiring miners to sell a percentage of their diamonds to local polishers, also outside of De Beer's influence. Other African nations were increasingly challenging the dominance of De Beers over the distribution and sale of such a valuable commodity mined in their countries. DeBeers's market share has gradually decreased over time. A new development may be of even greater concern for De Beers; synthetic diamonds. Natural diamonds are formed when carbon is under intense pressure under the Earth's surface of hundreds of millions of years. Recently, scientists have discovered how to create diamonds in less than a week by putting carbon under extremely high pressure in a	**CO3,4,5**

laboratory. The first synthetic diamonds were deemed poor substitutes for natural diamonds in jewelry, but they did prove to be excellent substitutes in industrial applications (where diamonds are used for cutting because of their extremely hard surface). By 2007, synthetic diamonds had captured 90 per cent of the industrial diamond market from De Beers. Worse still for De Beers, makers of synthetic diamonds have improved their products to such an extent that they are now often indistinguishable from natural diamonds, even to professional jewelers.

It will be interesting to see what effects synthetic diamonds will have on the market for diamonds in jewelry. Currently, most jewelers and customers have a strong preference for natural diamonds, even though synthetic ones are chemically identical and indistinguishable. Apparently, the 'authenticity' of natural diamonds still as sentimental value. The market price of synthetic diamonds for jewelry is about 30 per cent of the price of the natural diamonds. However, preference's may change over time as consumers become more accustomed to synthetic diamonds and see that they are functionally equivalent and much cheaper. If that happens, De Beers will lose a large part of its market power. DeBeers still control a large fraction of the supply of natural diamonds, but it may be forced to dramatically cut prices (and increase output it is willing to sell) in order to meet the new competition.

(Microeconomics by David Besanko & Ronald Braeutigam; Chapter 11, Applications 11.1pp.443**)**

Answer the following questions based on case study:

1. Under which market structure is DeBeers operating in the case study. State and define that market structure while mentioning it main characteristics. **[3]**
2. How De Beers decides the quantity to be produced and priced? **[2]**
3. What kind of profits DeBeers earning in the present situation mentioned in the case? Explain with the help of diagram. **[6]**
4. Which factors are affecting market share of DeBeers? How will this effect profit of DeBeers over a period of time? **[4]**

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Instructions: All the Questions are compulsory

Section A (20 marks)

1	Elasticity of Apple iPhone Xs a. increase over a period of time b. decrease over a period time c. No change over a period of time d. Infinite over a period of time	**[1]**	**CO1**
1.	The marginal productivity theory of distribution is applicable to a. Labor b. Capital c. Land d. Any factory of production	**[1]**	**CO1**
2	Ricardo proposed his theory of rent by introducing different types of land on the basis of b. Size b. Fertility c. Land Holdings d. None of the above	**[1]**	**CO1**
3.	Which of the following industries most closely approximates the perfectly competitive model theoretically? a. Automobile b. Cigarette c. Newspaper d. Wheat farming	**[1]**	**CO1**
4	A collusion is tacit when e. demand curve of a firm in the collusion is kinked f. Firms engage in price war g. Firms do not document their agreement to collude h. Member firms cheat on each other	**[1]**	**CO1**
5	Supply of land is independent of what it earns because: a. It is only given by nature b. It has single use c.It is the only factor input d. It varies in degree of fertility	**[1]**	**CO1**
6	A large reduction in price by a firm in monopolistic competition would lead to a. No effect on customers b. Attract a small number of customers from rivals c. Attracting all customers from rivals d. Attracting large number of customers from rivals	**[1]**	**CO1**
7.	Demand for factor inputs is b. Independent demand b. Derived demand c. Dependent demand d. Inelastic demand	**[1]**	**CO1**
8	All of the following EXCEPT one pose a constraint in developing a model to explain Oligopoly a. Indeterminate demand curve b. Formation of Cartel c. Tendency to influence market conditions d. Fear or price war	**[1]**	**CO1**
9	Product homogeneity does not include; a. Minor changes in the same generic product b. No change in the same generic product c. Preference over any one product d. Different prices for different products	**[1]**	**CO1**
10	The marginal productivity theory of distribution is applicable to b. Labour b. Land c. Capital d. All the factors of production	**[1]**	**CO1**

11	A perfectly competitive firm can sell all the output it wants a. By cutting down supply of output b. By lowering its cost of production c. By lowering price it charges for each extra unit to be produced d. Without lowering price	**[1] CO1**
12	The extreme case of non-price competition in an Oligopoly is a. Formation of duopoly b. Formation of Cartel c. Interdependent decision making d. Attaining economies of scale	**[1] CO1**
13	Economic rent is the amount a factor earns over and above it b. Basic earning b. Marginal revenue c. Transfer earning d. Profit	**[1] CO1**
14	Monopolistically competitive firm earns supernormal profit in short run because of a. Product differentiation b. Free entry and exit of firms c. Imperfect knowledge d. Independent decision making	**[1] CO1**
15	Elasticity of demand curve under monopolistic completion is a. Equal to one b. Less than one c. Equal to Zero d. More than 1	**[1] CO1**
	State True (T) or False (F)	
1	Quasi rent can accrue to land and capital.	**[1] CO1**
2	The demand curve in oligopoly is less elastic above the kink and more elastic below the kind.	**[1] CO1,2**
3	The reason for interdependence among oligopolists is high cost of switching over to other firms products.	**[1] CO1**
4	The firm sets the price of the product in a perfectly competitive market.	**[1] CO1**
5	Product groups are formed by combining close substitutes from the same industry.	**[1] CO1,2**
	Section B (10 marks) **Answer in 3-4 lines maximum**	
1	"There are large number of sellers and buyers in perfect competition'. What do we understand exactly by 'large number' in the statement?	**[7] CO 2,4**
2	How do you calculate 'value of marginal product (VMP)?	**[7] CO 2,4**
3	Will monopolist continue to produce in the short run if a loss is incurred at the best short-run level of output?	**[7] CO 2,4**
4	'Oligopoly market structure is not able to explain equilibrium in single model' Why?	**[7] CO 2,3,4**
5	Define 'Quasi rent'.	**[7] CO 2,4**
	Section C (35 marks) **Attempt any 5 questions**	
1	Is there possibility of profit or losses in short run in perfectly competitive market when a firm is price taker? Explain the way to determine equilibrium in each of the case with the help of diagram.	**[7] CO 2,4**

2	‘Product differentiation’ and ‘Advertisement’ are two crucial features of Monopolistic Competition. Explain the statement stating the relevance of these features with help of appropriate examples.	**[7]**	**CO2,3,4**
3	Mention four factors of production (FOP) and explain what returns are earned for utilizing them. Why are these FOPs priced accordingly?	**[7]**	**CO 2,4**
4	How is wage determined under perfect competition in labor market? At what level does long run equilibrium established between demand for and supply of labor?	**[7]**	**CO 2,4**
5	Keynes classified the different needs to hold money by suggesting preference for liquidity. Under what classification is the theory based? Discuss in detail.	**[7]**	**CO 2,4**
6	Discuss Cournot’s Model with the help of diagram. On what basis do firms compete in this model and why?	**[7]**	**CO 2,4**
	Section- D (35 marks)		
1	“If there is increase in the price of small cars (say Alto 800) by Maruti, others (Hyundai-Eon, Tata-Nano, Chevrolet–Beat, Nissan-Dastun), may not follow; and if there is decrease in the price of small cars segment by Maruti (Alto 800), other firms in small car segment (mentioned above) may follow”. What shape of demand curve will emerge in such situation? Which market structure this situation refers to? How producer does attains equilibrium in such situation?	**[15]** **CO3,4**	
2	On what basis does the modern theory of rent criticizes Ricardo’s theory of rent? How is rent determined as per modern theory?	**[20]** **CO 2,3,4**	