

NATIONAL LAW UNIVERSITY, JODHPUR  
Mid Term Examination -2024  
U.G. II SEMESTER  
ECONOMICS -I GENERAL PRINCIPLES OF MICROECONOMICS

**Time: Ninety Minutes**

**MM: 50**

**Instructions:** 1. Follow Examination protocol

2. Non -scientific calculators are allowed

Q.1) The author of a newspaper article argues that despite 8% increase in the price of smartphones from last year to this year, sales remain high in the current year. The author claims that this data suggests that the *law of demand* does not apply to smartphones. What two errors has the author made in interpreting the law of demand? Explain.

(b) Explain the fallacy in the following statement:

"Because the Great Depression began during the Herbert Hoover presidency, his economic policies were its primary cause."

**Marks (2.5\*2=5)**

Q.2.) Minimum wage laws dictate the lowest price for labour that an employer must pay. How does the minimum wage policy affect the labour market?

(b) Calculate elasticity of demand from point B to point D and from point D to point B and midway between them.

Point	$P_x$	$Q_x$
A	8	0
B	7	1000
C	6	2000
D	5	3000

**Marks (5+5=10)**

Q.3) Explain the following questions briefly. (Any Three)

(a) A persistent problem facing our society is the use of illegal drugs which has several adverse effects. Therefore, governments devote substantial resources to discourage the use of illegal drugs. Using demand and supply diagram examine the policy of drug interdiction on drug related crimes.

- (b) The task of an economist is not to praise and condemn; but only to analyze and explain.
- (c) The law of diminishing marginal utility is a fundamental concept in economics that explains the inverse relationship between price and quantity demanded.
- (d) Whether the price elasticity for 'vanilla ice cream' is greater than the price elasticity for ice cream in general?

**Marks (4\*3=12)**

Q.4) Ketchup is a complement (as well as a condiment) for hot dogs. If the price of hot dogs rises what happens to the market for ketchup? For tomatoes? For tomato juice? For Orange juice. Use demand and supply diagram to examine the above markets.

**Marks (15)**

Q. 5) Explain the law of increasing marginal cost with the help of production possibility curve (PPC). What does it explain for its shape? How does economic growth affect the production possibility curve of the economy? Discuss in detail with important assumptions.

**OR**

Is the slope of a demand curve the same as its elasticity? Using differential calculus, explain the relationship between elasticity of demand, total revenue and average revenue. Draw suitable diagram showing their relationship.

**Marks (8)**



6 MAY 2024

**NATIONAL LAW UNIVERSITY, JODHPUR**

End Term Examination - 2024

Semester: UG II

Subject: Economics -I

(General Principles of Microeconomics)

Time: Three Hours

Marks: 100

**Instructions:**

1. *Question Paper consists of three Pages*
2. *Attempt any FIVE Questions.*
3. *Non-scientific calculators are allowed*
4. *No clarifications shall be sought during examination*

Q.1) (a) How do positive and normative economics complement and contradict each other in providing a thorough understanding of economic issues? illustrate with a real-world example?

(b) Consider an economy producing agricultural products (Good X) and manufactured goods (Good Y). How do advancements in technology in agricultural sector impact the Production Possibility Curve (PPC) considering the potential for increased efficiency and expanded production possibilities? Also discuss the market inefficiency and choice between public and private goods with the help of PPC.

Marks (10+10=20)

Q.2) (a) Explain the concept of cross elasticity of demand. The quantity demanded of good X increases from 200 units to 240 units when the price of good Y decreases from ₹80 to ₹60. Calculate the cross elasticity of demand between goods X and Y, and determine whether the goods are substitutes, complements, or unrelated.

(b) Using demand and supply curves, explain the effect of the following events on the markets for ice cream:

(i) A hurricane destroys part of the sugarcane crop and drives up price of sugar.

(ii) Suppose heat wave and hurricane occur simultaneously during the same summer.

Marks (5+7.5\*2=20)



- Q. 3) (a) What argument Marshall gave in defence of the assumption of constant Marginal utility of money? Derive demand curve from cardinal approach and explain in terms of cardinal utility theory, why demand curve for a commodity is downward sloping? Explain.
- (b) Suppose a consumer spends all his monthly income of Rs. 7000 on fruits (Good X) and vegetables (Good Y). The price of a fruit is Rs. 50, and the price of a vegetable is Rs. 70. He consumes 10 units of fruits and 12 units of vegetables per month. His  $MRS_{XY} = 1$ . Is consumer in equilibrium with this consumption, which commodity consumer will substitute for the other to reach equilibrium position? Illustrate diagrammatically with indifference curve.
- (c) Explain how the Price Consumption Curve (PCC) relates to the concept of the price effect, which can be decomposed into income and substitution effects. Write in detail the methodology used to decompose the total price effect into income and substitution effect.

**Marks (7+5+8=20)**

- Q.4) (a) Explain different stages of production in the long-run production function and highlight the key characteristics associated with each stage. Discuss the factors contributing to the emergence of these distinct stages. Show different stages of production with the help of isoquants.
- (b) Isoquants can be convex, linear or L-shaped. What does each of these shapes tell you about the Marginal rate of technical substitution (MRST) between two inputs? Explain the concept of MRTS. What you can infer about the nature of inputs in each case?
- (c) What does envelope curve represent and how it is derived?

**Marks (10+5+5=20)**

Q.5) (a) Define monopolistic competition with two examples, identify the competitive and monopolistic elements in monopolistic competition. Is it justifiable to argue that regulation is unnecessary in monopolistically competitive markets given the subtlety and difficulty in measuring and addressing inefficiencies, coupled with the challenges of regulation? Support your stance with reasoned arguments, taking in account the concept of excess capacity with suitable diagram.

(b) How do oligopoly markets resemble the principles of the Prisoner's Dilemma game theory scenario? Explain the strategic choices facing firms in such markets and how these choices can lead to suboptimal outcomes.

**Marks (12+8=20)**

Q.6) (a) Suppose a doctor and a baker share a building for their respective professions. The doctor operates a clinic on one side of the building, while the baker runs a bakery on the other side. However, the bakery's operation involves the use of loud machinery and equipment, causing disruptive noise that interferes with the doctor's ability to consult with patients effectively. Identify the cause of market failure in the given scenario. Use Coase theorem to explain how might the doctor and the baker negotiate a mutually beneficial solution to address the noise issue? Discuss the necessary conditions for the Coase Theorem to be applicable in this negotiation process and the difficulties involved in the process.

(b) Write a brief note on market for lemons.

**Marks (15+5=20)**

