

# MICROECONOMICS (CUET).

7. In which market situation, the firm in a particular industry decide to join together as a single unit for the Purpose of maximize their joint profits and to share the market?

- 1 Perfect competition .
- 2 Monopoly .
- 3 Oligopoly ✓
- 4 Monopolistic competition .

↳ cartel  
(Joint profit)

Oligopoly  
↳ few seller  
↓  
few dominant firms together form cartel  
(Collusive Oligopoly)  
↳ capture max market share  
↳ Joint profit max.  
↳ avoid price/price competition.

8. If the income effect is positive for both the goods X and Y, then the income consumption curve will slope:

1. upward to the right ✓
2. backward to the left
3. parallel to X axis
4. downward to the right



9. In which of the following kind of goods, law of demand does not operate?

- (A) Normal goods
- (B) Giffen goods ✓
- (C) Veblen goods
- (D) both b and c ✓

↓  
violations  
① Giffen  
② Veblen  
③ Snob Effect  
④ Bandwagon

10. When the price of good X increases and consumers demand less of good X because increased price has made them relatively poorer, it is called as the

- (A) Substitution effect
- (B) Demand effect
- (C) Supply effect
- ✓ (D) Income effect

11. Who assumed the 'weak ordering' as a principle to explain the behavior of an ideal consumer?

1. Adam Smith
2. Alfred Marshall
3. Samuelson
4. J. R. Hicks ✓

12. The economist who viewed profits as a dynamic surplus is:

- 1 J. B. Clerk ✓
- 2 G. J. Stigler
- 3 Stonier and Hague
- 4 F. H. Knight

13. The only possible equilibrium positions in an Edgeworth production box is where:

- 1 isoquants intersect each other
- 2 isoquants are tangent to each other ✓
- 3 isoquants intersect outside to ridge line
- 4 isoquants are parallel to each other



4. If an estimated Cobb-Douglas production function is  $Q = 10 K^{0.2} L^{0.7}$ , what type of returns to scale does this production function indicate?

- 1. Increasing returns
- 2. Decreasing returns ✓
- 3. Constant returns
- 4. Negative returns

$Q = f(L, K)$   
 $L, K \rightarrow \lambda$   
 $\Rightarrow f(\lambda L, \lambda K)$   
 $= \lambda^{\alpha+\beta} Q$

$\alpha + \beta = 0.9 < 1$   
 (Decreasing returns)

$CRS \Rightarrow \alpha + \beta = 1$   
 $DRS \Rightarrow \alpha + \beta < 1$   
 $IRS \Rightarrow \alpha + \beta > 1$

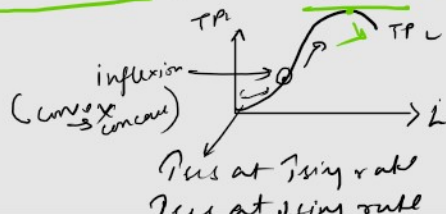
5. If negative income effect is greater than positive substitution effect: price effect will be

- 1. zero
- 2. negative ✓
- 3. positive
- 4. positive and greater than one

$PE = IE + SE$   
 $(-) IE > (+) SE$   
 $PE \Rightarrow (-ve)$

6. In the law of variable proportion, the point of inflexion is where:

- 1. Total product starts decreasing at increasing rate
- 2. Total product starts decreasing at diminishing rate
- 3. Total product starts increase at increasing rate
- 4. Total product starts increasing at diminishing rate ✓

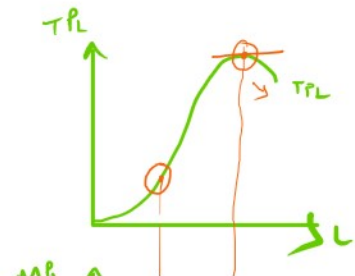


$Q = 10 K^{0.2} L^{0.7}$   
 $\lambda$

then  $10 (\lambda K)^{0.2} (\lambda L)^{0.7}$

$\Rightarrow 10 \lambda^{0.2} K^{0.2} \lambda^{0.7} L^{0.7}$

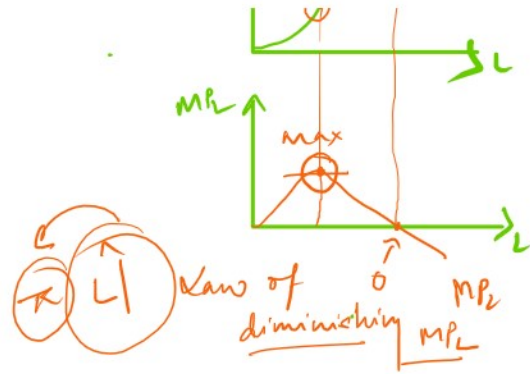
$\Rightarrow \lambda^{0.9} (10 K^{0.2} L^{0.7})$   
 $\lambda^{0.9} Q$



Plus at rising rate  
 Plus at rising rate

7. Which economist is not related with constant elasticity of substitution (CES)

- A. Arrow.
- B. Minahs.
- C. Chenery.
- D. Wicksell

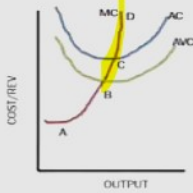


8. In CES production function if value of  $\beta$  (substitution parameter) is 0 then elasticity of substitution will be

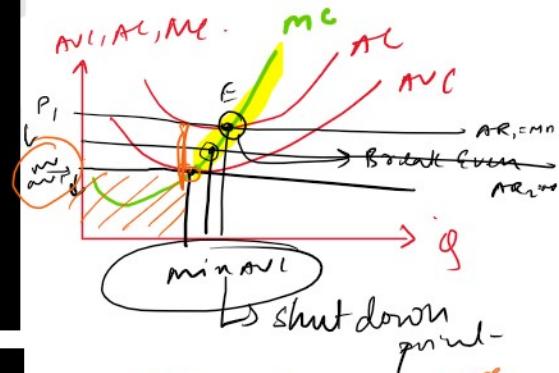
- A. 1
- B. 0
- C. 0.5
- D. 1.5

$CES = \frac{1}{1+\beta}$   
 $\beta = 0$   
 $\rho = 2$

9. In the given diagram which segment shows the supply curve of the producer.



- A. AB
- B. AD
- C. BC
- D. BD



10. Given that C.E.S. production function is

$P = \gamma [\delta L^{-\rho} + (1-\delta)K^{-\rho}]^{-1/\rho}$

List-I List-II

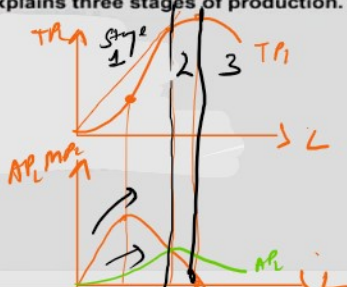
- a.  $\gamma$  i. Distribution parameter
- b.  $\delta$  ii. Substitution parameter
- c.  $\rho$  iii. Returns to scale parameter
- d.  $\mu$  iv. Efficiency parameter

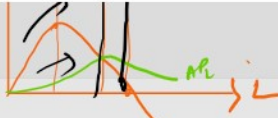
- 1. iv, i, ii, iii
- 2. iv, ii, iii, i
- 3. i, iii, iv, ii
- 4. ii, iii, iv, i

$P = \gamma [\delta L^{-\rho} + (1-\delta)K^{-\rho}]^{-1/\rho}$   
 $P = \gamma [\delta L^{-\rho} + (1-\delta)K^{-\rho}]^{-1/\rho}$   
 Cobb  $A L^\alpha K^\beta$   
 Efficiency

12. Law of variable proportion explains three stages of production. In the first stage of production:

- 1. Both MP and AP rise
- 2. MP rises
- 3. AP Falls
- 4. MP is zero





13. A firm has variable cost of Rs.1000 at 5 units of output. If fixed costs are Rs.400, what will be the average total cost at 5 units of output?

- 1. 380
- 2. 280 ✓
- 3. 60
- 4. 400

$$\begin{aligned} TC &= VC + FC \\ &= 1000 + 400 \\ &= \frac{1400}{5} = 280. \end{aligned}$$

14. At shut down point

- 1. Price is equal to AVC
- 2. Total revenue is equal to TVC
- 3. Total loss of the firm is equal to TFC
- 4. All of the above ✓

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