

**BACHELOR'S OF ARTS (ECONOMICS HONOURS) PROGRAMME  
(BAECH)**

**ASSIGNMENT 2022-23  
For July 2022 and January 2023 Admission cycle**

**Course Code: BECC-108  
Title of Course: Intermediate Microeconomics-II**

**School of Social Sciences  
Indira Gandhi National Open University  
Maidan Garhi, New Delhi-110 068**



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**Course Title: Intermediate Microeconomics-II**  
**Programme Code: BAECH**  
**Tutor Marked Assignment (TMA) 2022**

Dear Student,

As explained in the Programme Guide, evaluation of a course at IGNOU comprise i) continuous evaluation through assignments, and ii) term-end examination. In the final result, assignments of a course carry 30% weightage while 70% weightage is given to term-end examination. You will have to do three assignments for a six-credit course and two assignments for a four-credit course. This assignment booklet has assignments for the core course BECC-108: Intermediate Microeconomics-II.

Section I has Long answer questions. These are meant for writing essay type answers, with an introduction and a conclusion. These are intended to test your ability to describe your understanding/knowledge about a topic in a systematic, to-the-point and coherent manner.

Section II has Medium answer questions. These questions require you to first analyse the topic in terms of arguments and explanations and then write the answers in a concise manner. They are meant to test your ability to distinguish, compare and contrast, and clear understanding of the concepts and processes.

Section III has Short answer questions. These questions are meant to improve your skill of recall in brief the relevant/ precise information about various concepts and processes.

Before you attempt the assignments, please read carefully the instructions provided in the Programme Guide. It is important that you write the answers to all the questions in your own words. Your answers should be within the approximate range of the word-limit set for a particular section. Remember that writing answers to assignment questions will improve your writing skill and prepare you for the Term-End Examination. You will find it useful to keep the following points in mind:

1) **Planning:** Read the assignments carefully, go through the Units on which they are based. Make some points regarding each question and then rearrange them in a logical order.

2) **Organisation:** Be a little selective and analytic before drawing up a rough outline of your answer. Give adequate attention to your introduction and conclusion.

Make sure that your answer:

a) is logical and coherent;

b) has clear connections between sentences and paragraphs, and

c) is written correctly giving adequate consideration to your expression, style and presentation.

3) **Presentation:** Once you are satisfied with your answer, you can write down the final version for submission, writing each answer neatly and underlining the points you wish to emphasize. Make sure that the answer is within the stipulated word limit

As mentioned in the Programme Guide, you need to submit all the assignments within the stipulated time for being eligible to appear in the term-end examination. Completed assignments should be submitted to the Coordinator of your Study Centre by:

For students registered in July 2022 cycle: 30.04.2023

For students registered in January 2023 cycle: 31.10.2023

You must obtain a receipt from the Study Centre for the assignments submitted and retain it. If possible, keep a photocopy/ scanned copy of the assignments submitted by you.

The Study Centre will have to return the assignments to you after they are evaluated. Please insist on this.

**BECC- 108 INTERMEDIATE MICROECONOMICS - II**

**Course Code: BECC-108**

**Assignment Code: BECC108/TMA /2022-23**

**Maximum Marks: 100**

**Answer all the questions.**

**Section I: Long answer questions (word limit - 500 words). Each question carries 20 marks.**

**2 × 20 = 40**

1. (a) Consider an economy with only one good, food. There are three people in the economy, A, B and C. A has 400 units of food, B has 100 units, and C has only 16 units. All have the same utility,  $U_i = \sqrt{f}$  for  $i = A, B, C$  and where  $f$  stands for food. The social welfare function for this society is the sum of the utilities of the three individuals.
- (i) The government decides to redistribute food more equally, so it takes 175 units from A and gives them to B. However, the government spoils 79 of these units in transportation, so B ultimately gets only 96 units of food. What is each person's utility level now? Find the social welfare level in this case. (4)
- (ii) Assume now that the government considers a different redistribution scheme. Starting with the original endowments, the government takes 175 units from A. This time it wishes to give them to C, but in transportation it destroys 91 units, so C only gets 84 of these extra units. What is each person's utility level now? Find the social welfare level in this case. (4)
- (iii) Compare parts (i) and (ii) in terms of social welfare. Explain what you infer. (4)
- (b) Explain the First theorem of welfare and Second theorem of welfare. (8)
2. (a) What is the difference between a Dominant strategy and a Nash equilibrium? (6)
- (b) Consider the following game: Two criminals are thinking about pulling off a bank robbery. The take from the bank would be Rs.25,000 each, but the job requires two people (one to rob the bank and one to drive the getaway car. Each criminal could instead rob a liquor store. The take from robbing a liquor store is only Rs.2000 but can be done with one person acting alone.
- i) Write down the payoff matrix for this game. (3)
- ii) Explain the pure strategy equilibria. (3)
- (c) Consider the following version of the prisoner's dilemma game:

Player Two

	Cooperate	Cheat
Cooperate	Rs.100, Rs. 100	Rs.0, Rs.120
Cheat	Rs.120, Rs.0	Rs.50, Rs.50

- a) What is each player's dominant strategy? Explain. (4)
- b) Explain the Nash equilibrium of the game. (4)

**Section II: Medium answer questions (word limit - 250 words). Each question carries 10 marks.**

**3 × 10 = 30**

3. What is a natural monopoly? Discuss and differentiate the marginal cost pricing and average cost pricing under natural monopoly.
4. Differentiate between Signalling and Screening as solutions to problem of asymmetric information. Give a brief explanation of how do these solutions work.
5. With the help of Grand Utility Possibility Curve, explain how does society maximise social welfare.

**Section III: Short answer questions (word limit - 100 words). Each question carries 6 marks.**

**5 × 6 = 30**

6. Do you think in a system where people pay for their own education, there might be underspending on education? Give reasons for your response.
7. Briefly explain the problem of Moral Hazard that arises in the insurance industry.
8. What do you mean by the term 'Dead Weight Loss'? Explain with the help of a diagram. Discuss the reasons of its existence.
9. Discuss the concept of Pareto Optimality and briefly explain its criteria.
10. Differentiate between a Normal form game and Extensive form game.