BACHELOR'S OF ARTS ECONOMICS Hons. PROGRAMME

(B.A.EC.H)

ASSIGNMENT

For the learners enrolled in
January 2020 session

COURSE CODE: BECC-101

INTRODUCTORY MICROECONOMICS

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THE PEOPLE'S
UNIVERSITY

SCHOOL OF SOCIAL SCIENCES
INDIRA GANDHI NATIONAL OPEN UNIVERSITY
MAIDAN GARHI, NEW DELHI-68

Dear Student,

As explained in the Programme Guide, evaluation at IGNOU consists of two parts: 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 for term-end examination. You will have to do three Tutor Marked Assignments (TMA) for a six credit course and two TMAs for a four credit course. This Assignment booklet has TMAs for the core course **BECC- 101 Introductory Microeconomics** which is a six credit course.

Assignment One has Descriptive Category Questions (DCQs) along with the application part. These questions are framed to check your understanding of various introductory concepts of Economics along with your ability to solve the application based questions in a systematic, to-the-point and coherent manner.

Assignment Two has Middle Category Questions (MCQs). These questions require you to first analyse the topic in terms of arguments and explanations and then write the answers in a concise manner.

Assignment Three has Short Category Questions (SCQs). These questions are meant to improve your skill of recalling in brief the relevant/precise information about various economic concepts and processes.

Before you attempt the assignments, please read the instructions carefully provided in the Programme Guide. It is important that you write the answers to all the TMA questions in your own words. Your answers should be within the approximate range of the word-limit set for a particular section.

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 to the **Coordinator of your study centre**. **This assignment is valid for January 2020 admission cycle; and the assignment is to be submitted latest by September 30, 2020.** You must obtain a receipt from the Study Centre for the assignments submitted and retain it. If possible, keep a xerox copy of the assignments with you.

The Study Centre will have to return the assignments to you after they are evaluated. Please insist on this. The Study Centre has to send the marks to the Student Evaluation Division at IGNOU, New Delhi.

We expect you to answer each question as per guidelines for each category as mentioned in the assignment. 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.

Assignment One

Answer the following Descriptive Category questions in about 500 words each. Each question carries 20 marks. Word limit does not apply in application part of the question.

$2 \times 20 = 40$

1. (a) "A perfect competitive firm incurring losses in the short-run may loose even more by shutting down." Discuss.   10

    (b) Consider Figure 1 below where MC, ATC, AVC, D, and AR represent the marginal cost, average total cost, average variable cost, demand, and average revenue curve respectively under a perfect competition. Based on the figure, answer the following questions: 10

    (i)   What is the profit maximising level of output for this firm in the short-run? At this quantity, what is the marginal revenue?

    (ii)   How much is the total cost for this firm in the short-run equilibrium?

    (iii) In the short run, is the firm making economic profit or suffering loss? How much is that profit or loss? Should the firm shut down?

    (iv)   What is the fixed cost of production faced by this firm?

    (v)   What is the break-even price for this firm? What is the shut down price for this firm?

    (vi)   If fixed cost increases further, what impact will this have on this firm's profit maximising level of output in the short run?
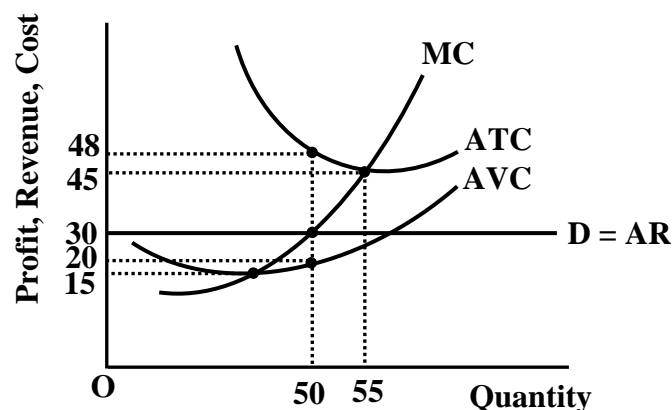

Figure 1

OR

(a) Using appropriate diagrams compare and contrast short-run equilibrium conditions with the long-run equilibrium condition faced by a firm in perfect competition. 10

(b) A firm in a perfect competitive market structure faces a marginal cost function given by

$$MC(Q) = 4Q + 5$$

where Q represents quantity of output produced. This firm earns marginal revenue of Rs 25 on each unit sale of its output. Suppose this firm decides to produce 3 units of output, is this a profit maximising decision by the firm? If not, how much should this firm produce to earn maximum profits? In the long-run will this firm earn negative economic profits, positive economic profits, or zero economic profits? 10

2. (a) Discuss the income and substitution effects of a price change in case of an inferior good. 10

(b) Consider the demand curve AC of a good in Figure 2. Given distance AB and BC as x and y, units respectively,

   (i) What will be the price elasticity of demand for the good at point B? What will be the price elasticity of demand for the good at point A and at point C? 5

   (ii) Given that price elasticity at point B is 1, how x and y will be related? 5
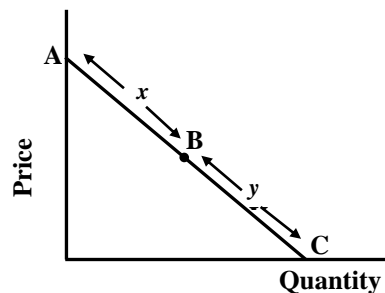

Figure 2

OR

(a) A Giffen good is a special type of inferior good. Do you agree? Give reason. 10

(b) (i) Consider Figure 3, where DD' represents a rectangular hyperbola shaped demand curve for a good. Find the price elasticity of demand for this good at point A and point B. 5
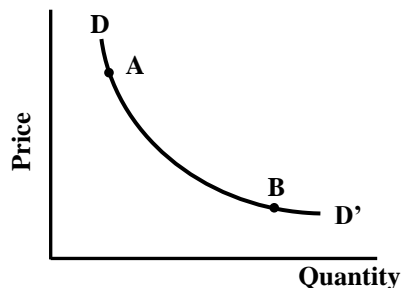

Figure 3

   (ii) Given the price elasticity of demand for a good as 0.6. Suppose price of this good decreases by 10%, what would we expect to happen to the quantity demanded? 5

Assignment Two

Answer the following Middle Category questions in about 250 words each. Each question carries 10 marks. Word limit does not apply in application part of the question.

$$3 \times 10 = 30$$

3. Explain why a monopolist does not have a well-defined supply curve?   10

OR

A Monopoly faces market demand given by $Q = 30 - P$, where Q stands for quantity and P for price. Total cost function is given by $C(Q) = 2Q^2$. Find the profit maximising price and quantity and the resulting profit to the monopoly. Compare your results with the equilibrium quantity and price of that of a perfect competitive industry.   10

4. Draw a kinked demand curve and show how a change in marginal costs may not affect the price in the market.   10

OR

(a) Discuss the strategic decision making in Oligopoly markets.   5

(b) Differentiate between the assumptions of a Cournot's model and the Stackelberg model.   5

5. (a) What is meant by the productive and allocative efficiency conditions for a firm?   5

(b) Is monopoly productively and allocatively efficient?   5

OR

(a) Discuss various forms of departures from the assumptions of a Perfect competitive market structure.   5

(b) How does a Pigouvian tax works to solve the externality problem?   5

Assignment Three

Answer the following Short Category questions in about 100 words each. Each question carries 6 marks.

$$5 \times 6 = 30$$

6. Illustrate the relation between the Value of Marginal product and Marginal Revenue product of a factor under imperfect competition.   6
7. Compare and contrast Marshallian theory with the Ricardian theory of rent.   6
8. What is meant by derived demand of a factor?   6
9. Discuss the central problems of an Economy.   6
10. Explain the First Fundamental Theorem of Welfare Economics.   6