BACHELOR OF ARTS

(BAG)

ASSIGNMENT

For the students enrolled in
July 2019 and January 2020 sessions

COURSE CODE: BECC-132

PRINCIPLES OF MICROECONOMICS – II

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THE PEOPLE'S
UNIVERSITY

SCHOOL OF SOCIAL SCIENCES
INDIRA GANDHI NATIONAL OPEN UNIVERSITY
MAIDAN GARHI, NEW DELHI-110068

Dear Student,

As we have informed you 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- 132 Principles of Microeconomics- II** which is a six credit course. The booklet therefore has three TMAs whose total marks add up to 100 and carry a weightage of 30 %.

Assignment A has Descriptive Category Questions (DCQs). 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 the topic in a systematic, to-the-point and coherent manner.

Assignment B 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. They are meant to test your ability to distinguish, compare and contrast, or clear understanding of the concepts and processes.

Assignment C has Short Category Questions (SCQs). These questions are meant to improve your skill of recall in brief the relevant/precise information about persons, writing, events, or clear understanding of 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. Remember, writing answers to assignment questions will improve your writing skills and prepare you for the term-end examination.

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.

Submission of the completed assignments :

Admission batch	Last date of submission	Place of submission
For the students enrolled in July 2019	30th April 2020	Coordinator of the student's study center
For the students enrolled in January 2020	31st October 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.

     Wish you all the best !

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Discipline of Economics
SOSS, IGNOU, New Delhi

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BECC-132 : PRINCIPLES OF MICROECONOMICS – II
Tutor Marked Assignments

Assignment A

Answer the following Descriptive Category questions in about 500 words each. Each question carries 20 marks. Word limit will not apply in case of numerical questions.

$$2 \times 20 = 40$$

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

    (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:

    (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) How much is fixed cost faced by this firm at equilibrium? Will it change if firm is not at equilibrium point?

    (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?
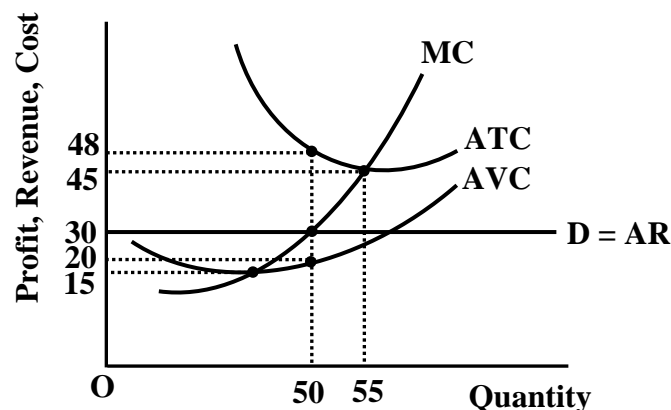

Figure 1

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

(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?

2. (a) Distinguish between the Absolute advantage and the Comparative advantage theory of trade.

(b) Consider Figure 2 below, where AB and A'B' represents two production possibility frontiers. There are two countries viz. 1 and 2. Country 1 and 2 are assumed to be capital and labour abundant respectively, while good X and Y are assumed to be labour and capital intensive respectively. Let P and P' represent autarky equilibriums of the two nations respectively, and let Q and Q' be their equilibrium after trade respectively. Each nation after trade consumes at point E on indifference curve IC. Further assuming all the assumptions of the H-O theory hold, answer the following questions:

(i) Which among AB and A'B' represent production possibility frontier for country 1 and 2 respectively?

(ii) Which country among 1 and 2 will import good X and which will import good Y?

(iii) Are exports of good X by one country equal to another country's imports of good X? What can be said about the import and export volume of good Y?

(iv) Is trade beneficial to each nation in terms of utility attained?
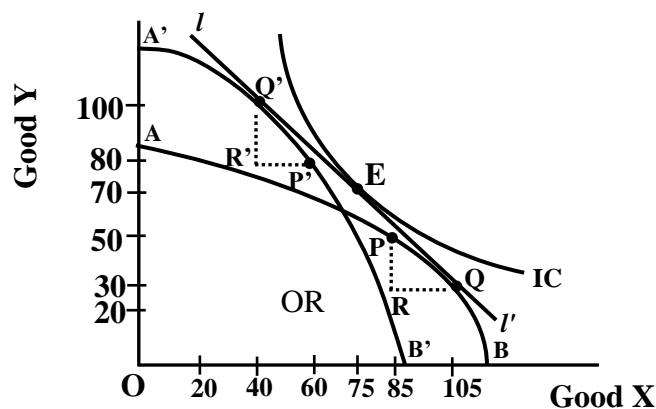
(v) What does slope of line ll' represent here?

Figure 2

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(a) "Heckscher-Ohlin Theory begins where Comparative advantage theory ends." Discuss.

(b) Consider the following Table 1 which represents unit labour requirements for the production of commodity X and Y by country A and B, and answer the questions that follow:

Table 1: Unit labour requirement for production of Good X and Y by Country A and B

	Commodity X	Commodity Y
Country A	2	4
Country B	12	6

(i) Which country among A and B has absolute advantage in producing commodity X and which has in producing commodity Y? Give reason.

(ii) Which country among A and B has comparative advantage in producing commodity X and which has in producing commodity Y? Give reason.

(iii) Suppose after trade each country specialises in production of commodity in which it has a comparative advantage, which country will specialise in producing commodity X?

Assignment B

Answer the following Middle Category questions in about 250 words each. Each question carries 10 marks. $3 \times 10 = 30$

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

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.

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

OR

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

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

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

(b) Is monopoly productively and allocatively efficient?

OR

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

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

Assignment C

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

$$5 \times 6 = 30$$

6. Describe the relation between the Value of Marginal product and Marginal Revenue product of a factor under imperfect competition.

7. Compare and contrast Marshallian theory with the Ricardian theory of rent.

8. What is meant by derived demand of a factor?

9. Illustrate the Deadweight loss under monopoly. Does it exist in case of Perfect competition as well?

10. Explain the First Fundamental Theorem of Welfare Economics.