BECC-101

BACHELOR'S OF ARTS (ECONOMICS HONOURS) PROGRAMME

(BAECH)

ASSIGNMENT 2020-21

For July 2020 and January 2021 Admission cycle

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 two admission cycles (**July 2020** and **January 2021**). Those who are enrolled in July 2020, they have to submit the assignment latest by **April 30, 2021**; and those enrolled in January 2021, they have to submit the assignment latest by **October 31, 2021**. 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.

Course Code: BECC-101
Assignment Code: Asst /TMA /2020-21
Total Marks: 100

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 monopolistic competition lies in-between a monopolistic and perfect competition market structures." Discuss. 5

   (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: 15

   (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?

   (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?
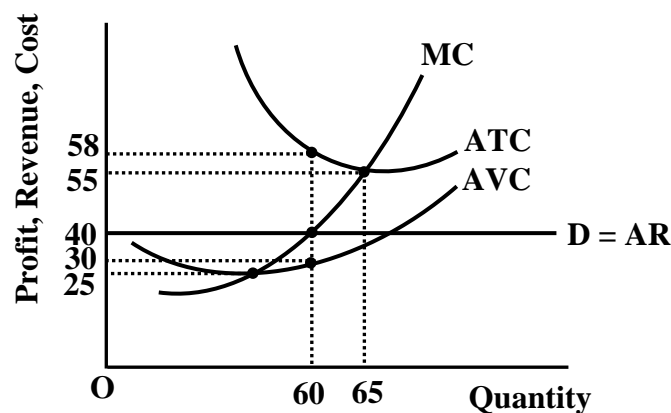

Figure 1

OR

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

(b) A perfect competitive industry faces a demand curve represented by $Q = 10,000 - 10P$. Also suppose that an individual firm belonging to that industry faces a marginal cost function given by

$$MC(Q) = 4Q + 100$$

Here Q represents quantity of output produced and P is the price. What would be the equilibrium market price? How much does each firm produce in equilibrium? and also find how many firms would be there in the industry in the long run?　　10

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

(b) Consider the demand curve AD of a good in Figure 2. The distance AB, BC and CD are equal to x, y and z units, respectively. In terms of x, y and z, what will be the price elasticity of demand for the good at points A, B, C and D?　　10
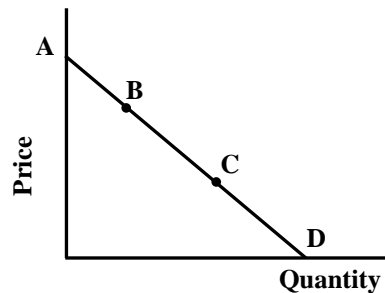

Figure 2

OR

(a) Compare and contrast a normal, an inferior and a Giffen good in terms of income elasticity of demand.　　10

(b) Consider Figure 3, where DD and D'D' represent the two different demand curves for a commodity in two different markets. Compare the two demand curves in terms of the price elasticity of demand.　　10
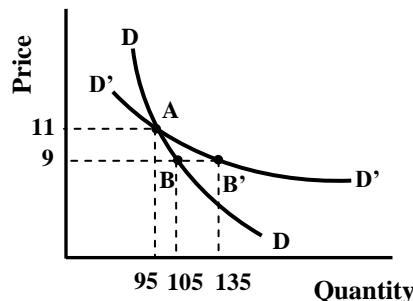

Figure 3

Assignment Two

Answer the following Middle Category questions in about 250 words each. Each question carries 10 marks.

$$3 \times 10 = 30$$

3. Compare the possibility of earning Economic profit by the firms operating under the three types of markets, viz. perfect competition, monopoly, and monopolistic competition.   10

<div align="center">OR</div>

A Monopoly faces market demand given by Q = 100 – 2P, where Q stands for quantity and P for price. Total cost function is given by C (Q) = 10Q. Find the profit maximising price and quantity and the resulting profit to the monopoly. Also show that the equilibrium price adheres to the optimal markup rule based on demand elasticity.   10

4. Illustrate a kinked demand curve and discuss why the demand curve has a kink under Oligopoly. Also explain the discontinuity in the shape of the resulting marginal revenue curve. On what does the extent of this discontinuity depends?   10

<div align="center">OR</div>

   (a) What is a Cartel? Comment upon the stability of a cartel.   5

   (b) Differentiate between the cooperative and the non-cooperative behaviour under Oligopoly. 5

5. Is the minimum wage a 'price ceiling' or a 'price floor'? Suppose government decides to set a minimum wage rule.

(a) With the help of a diagram show the effect of the minimum wage rule on the labour market given the wage is set above the market equilibrium wage rate.   5

(b) What will be the resultant effects on the labour market if the minimum wage is set below the market equilibrium wage rate?   5

<div align="center">OR</div>

(a) Illustrate with the help of a diagram, higher the price elasticity of supply, larger will be the per unit tax burden borne by the consumers.   5

(b) The demand and supply functions of a good are given by $Q_D = 24 - 3P$; $Q_S = 4 + 2P$ where P, Q_D and Q_S denote price, quantity demanded and quantity supplied, respectively. Find the inverse demand and supply functions and the market equilibrium price and quantity.   5

Assignment Three

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

$$5 \times 6 = 30$$

6. Compare the relationship between the value of marginal product (VMP) and marginal revenue product (MRP) under perfect and imperfect competition?

7. Differentiate between changes in demand and changes in quantity demanded.

8. Scarcity is the mother of all economic problems. Elaborate
9. Law of Diminishing returns applies only in the short-run. Do you agree?
10. Explain the Ricardian theory of rent.