

BECC-131

BACHELOR'S OF ARTS PROGRAMME
(B.A.G)

ASSIGNMENT 2020-21

COURSE CODE: BECC-131
PRINCIPLES OF MICROECONOMICS - I



SCHOOL OF SOCIAL SCIENCES
INDIRAGANDHINATIONALOPENUNIVERSITY
MAIDAN GARHI, NEW DELHI-68

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-131 Principles of Microeconomics- I** 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 One 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 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. They are meant to test your ability to distinguish, compare and contrast, or clear understanding of the concepts and processes.

Assignment Three 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. .

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.

PRINCIPLES OF MICROECONOMICS - I
Tutor Marked Assignments

Course Code: BECC-131
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

2 × 20 = 40

1. (a) Illustrate the relation between Total Cost (TC), Total Fixed Cost (TFC) and Total Variable Cost (TVC) curves. Also, comment upon the shapes of these curves. 10

- (b) Given a total cost function,

$$TC(Q) = Q^2 + 10Q + 100$$

where Q represents quantity of output produced.

- (i) Find the expressions for the variable cost, fixed cost, average cost, average variable cost, and average fixed cost. 5

- (ii) At what output level (Q) is the average cost lowest? Also find the minimum average cost. 5

OR

- (a) Differentiate between a long-run and a short-run cost function. 5

- (b) (i) Describe the relationship between the short-run and long-run average cost curves. 5

- (ii) Why the long-run average cost curve also called the envelope curve? 5

- (iii) Using an appropriate diagram, explain how does the long-run marginal cost derived? 5

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 1. 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

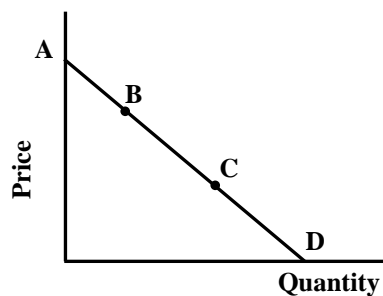


Figure 1

OR

- (a) Compare and contrast a normal, an inferior and a Giffen good in terms of income elasticity of demand. 10
- (b) Consider Figure 2, 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

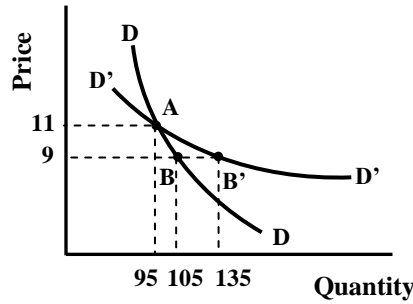


Figure 2

Assignment Two

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

$3 \times 10 = 30$

3. 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

OR

- (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
4. Consider a consumer who consumes two goods X and Y, priced at P_X and P_Y , respectively. Suppose price of good X falls to P_X' . Decompose price effect of this price increase into substitution and income effect using Slutsky method. 10

OR

With respect to the problem of consumer equilibrium, what is a corner solution? Explain using some examples where a corner solution arises as an optimal solution in the consumer utility maximisation problem. 10

5. (a) With the help of a diagram, explain the conditions of a producer's equilibrium in terms of marginal cost and marginal revenue approach. 5
- (b) Given that the two factor of production are employed in a fixed proportion in the production process, what will be the shape of the corresponding isoquants and the value of the MRTS as more and more units of one factor of production is employed keeping constant the other factor of production? 5

OR

Describe the relationship between marginal products of inputs and the marginal rate of technical substitution (MRTS). Why does MRTS decline as we move rightward and downward along a convex-shaped isoquant? 5

Assignment Three

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

$5 \times 6 = 30$

6. What causes decreasing returns to a variable input in the production process?
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. Differentiate between External and Internal Economies of Scale.