

BECC-132

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

ASSIGNMENT 2020-21

COURSE CODE: BECC-132
PRINCIPLES OF MICROECONOMICS - II



SCHOOL OF SOCIAL SCIENCES
INDIRA GANDHI NATIONAL OPEN UNIVERSITY
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-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 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 - II
Tutor Marked Assignments

Course Code: BECC-132
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

$2 \times 20 = 40$

1. (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

OR

- (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?

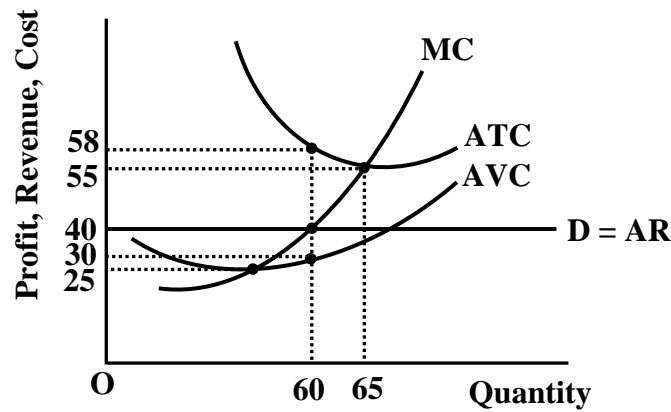


Figure 1

2. (a) Heckscher-Ohlin theory begins where the Ricardian theory of international trade ends. Discuss. 5
- (b) Consider the case of two countries, country A and country B which are assumed to be capital and labour abundant, respectively. Each country indulges in producing and consuming two goods, good X and good Y which are assumed to be labour and capital intensive, respectively. In autarky, equilibrium quantities of good X and good Y produced by country A are 60 and 80 units, respectively, while that produced by country B are 85 and 50 units, respectively. Post trade between these two countries, the equilibrium quantities of good X and good Y produced by country A become 50 and 100 units, respectively, while that produced by country B become 100 and 40 units, respectively. After trade, each nation consumes 75 and 70 units of good X and good Y, respectively. Further assuming all the assumptions of the H-O theory hold, attempt the following questions: 15
- (i) Illustrate the above case using the production possibility curves and the indifference curve.
 - (ii) Which country among A and B 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) What does the slope of the line passing through the post trade production and consumption combination of good X and good Y of both the countries represent?

OR

- (a) Compare the absolute Advantage theory of trade with the Comparative advantage theory of trade. A country can have a comparative advantage in producing a good even if it is absolutely less efficient at producing that good. Do you agree? Explain using an example. 10
- (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: 10

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

	Commodity X	Commodity Y
Country A	9	40
Country B	1	9

- (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 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

OR

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

OR

- (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. With the help of a diagram, illustrate the deadweight loss associated with a negative externality. How does a Pigouvian tax works to solve the welfare loss from such a deadweight loss? 10

OR

Discuss various forms of government interventions intended to internalize externalities. 10

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. Explain the Ricardian theory of rent.
8. What is a Moral Hazard problem?

9. What has been the impact of WTO policies on the Indian agriculture?
10. Explain the Second Fundamental Theorem of Welfare Economics.