

RAMAKRISHNA MISSION VIDYAMANDIRA

(Residential Autonomous College under University of Calcutta)

B.A./B.SC. FOURTH SEMESTER EXAMINATION, MAY 2012

SECOND YEAR

ECONOMICS (Honours)

Date : 21/05/2012

Time : 11 am – 3 pm

Paper : IV

Full Marks : 100

[Use Separate Answer Books for each Group]

Group - A

1. Answer **any three** questions : [3×4]
 - a) What is dead weight loss under monopoly.
 - b) Why does a monopolist always produce on the elastic part of its demand curve?
 - c) Give examples of externality in consumption and externality in production.
 - d) Explain the relationship between perceived and proportional demand curves under monopolistic competition.
 - e) Use Prisoners' Dilemma to explain Cartel instability.
2. Answer **any one** question : [1×8]
 - a) Consider a decreasing cost industry i.e let the prices of input decrease over time with increased usage. Derive the long run supply curve under perfect competition.
 - b) Can you obtain the market demand for a productive service from simple summation of individual demand curves? Justify your answer.
3. Answer **any two** questions : [2×15]
 - a)
 - i) Show that when labour is the only variable input, the condition that the marginal revenue product of labour equals wages follows from profit maximization under perfect competition.
 - ii) Explain the concepts of monopolistic and monopsonistic exploitation of labour. [7+8]
 - b)
 - i) What is the first mover's advantage? Explain the concept with the help of Stackelberg model.
 - ii) Discuss Stackelberg disequilibrium. [10+5]
 - c)
 - i) When is an allocation called Pareto optimal?
 - ii) What are the three efficiency conditions that must be satisfied for an allocation to be Pareto optimal? Explain why these conditions are necessary for Pareto optimality.
 - iii) If all markets are competitive, are these efficiency conditions necessarily satisfied? [2+8+5]
 - d)
 - i) Derive the long-run equilibrium under monopolistic competition.
 - ii) Is the existence of excess capacity an inevitable phenomenon in a monopolistically competitive structure? [8+7]

Group - B

4. Answer **any three** questions : [3×4]
 - a) Consider an economy in the long run. Suppose the government wants to increase the level of demand of the economy by decreasing the level of income tax. What will be its possible impact? Explain with the help of a diagram.
 - b) What is frictional unemployment? What is the impact of unemployment insurance on frictional unemployment?
 - c) Give two explanations for the cyclical behaviour of the Solow residual.
 - d) What is meant by "inflation inertia"?
 - e) What is signiorage? Describe its underlying mechanism.

5. Answer **any one** question : [1×8]
- a) Develop a model of money supply to demonstrate (along with economic reasons)
- i) the impact of fall in reserve-deposit ratio on money supply.
 - ii) the impact of a rise in currency deposit ratio on money supply. [4+4]
- b) How does the Real Business Cycle theory explain the effects of technological shock and fiscal shock? [8]
6. Answer **any two** questions : [2×15]
- a) What are the different concepts of technological progress? Which of these concepts are consistent with Solow's model of growth? Show, with the help of the particular concept how such technological progress can explain sustained increase in steady state growth rate of the economy. what will be the steady state rate of growth of — (i) National Income and (ii) Per-capita income. [3+1+8+3]
- b) i) How, according to the New Keynesian economists failure of coordination may lead to recessions in an economy?
- ii) What are inside lags and outside lags in policy making? What type of rules are suggested by the economists in the context of monetary policy making? [7+(4+4)]
- c) i) Can policy-makers exploit the Phillips curve relationship by trading more inflation for less unemployment in the short run as well as in the long run? Justify your stand.
- ii) "Fully anticipated inflation is costless" —do you agree? Explain. [9+6]
- d) i) Discuss the various rules that economists advocate for monetary policy.
- ii) Present the debate between the real business cycle theory and the new Keynesian economics over the causes of economic fluctuations.
- iii) How do small menu costs explain price rigidity? [6+4+5]

