Al-Saudia Virtual Academy

Pakistan Online Tuition – Online Tutor Pakistan

M.A. (PREVIOUS) EXTERNAL ANNUAL EXAMINATION 2000

“ECONOMICS” PAPER-1

(MICRO ECONOMICS)

Time: allowed: Three Hours. **Max.Marks:100**

Instructions: 1) Attempt any five questions.
2) All questions carry equal marks.
3) Draw diagrams where ever necessary.

1-a) Discuss various axioms of Ordinal theory of Consumer preference. Show that two indifference curves cannot intersect each other.

b) Using Ordinal theory, explain how you would derive the demand curve for a commodity.

2-a) in the market for Commodity ‘X’, suppose currently the price is such that the plans of Industry producing ‘X’ and the plans of all households who consume ‘X’ do not match. How would the market help individuals coordinate their plans?

b) Assume now that the incomes of consumers increases, how and why would the equilibrium price and quantity of good ‘X’ change?

3-a) Draw the short-run total cost and total variable cost curves for a typical firm, from these derive the average fixed cost (AFC), average variable cost (AVC), average total cost (AFC), average total cost (ATC) and marginal cost (MC) curves indicating all critical points.

b) Using the short-run average and marginal cost curves derive the Long-run cost curves.

4. Explain the concept of elasticity of substitution in production. How the elasticity of substitution does determine the distribution of income between Labor and Capital?

5-a) Indicate the underlying assumptions for the perfectly elastic demand curve faced by a firm under perfect competition.

b) Using the total revenue-total cost curves derive the short-run profit maximizing condition for a firm under perfect competition.

6-a) Explain the fundamental differences between the operation of a perfectly competitive, Monopolistic and monopolistically competitive firm.

b) Why and how would a Monopolist change different price for the same commodity, explain?

7-a) Define ‘pare to optimality’. State the conditions that must hold for ‘pare to optimality’.

b) Explain the effects of externalities on pare to optimality conditions.

8. Critically explain the classical theory of interest.

9. Write a note on any TWO of the following:-

   a) Elasticity of demand.

   b) Law of Diminishing returns.

   c) Ricardian theory of rent.