2021

ECONOMICS — HONOURS

First Paper

(Group - A)

Full Marks : 50

The figures in the margin indicate full marks.

*Candidates are required to give their answers in their own words
as far as practicable.*

Section – A

Answer *any five* questions.

1. Define : (a) opportunity cost; (b) cost-benefit.   2+2

2. Describe the forces that move the market for a good towards equilibrium.   4

3. If demand is unit elastic how will a decline in price affect total revenue?   4

4. Explain the signs of cross price elasticity of demand for substitute and complimentary goods.   4

5. "Price control has efficiency costs." Explain this statement by using either the case of price ceiling or price floor.   2+2

6. "Taxes on buyers and sellers are equivalent." — Explain.   4

7. What is the principle of diminishing marginal utility?   4

8. Why do economists oppose policies that restrict trade among nations?   4

Section – B

Answer *any five* questions.

9. A flight company is studying the question of when to cancel flights for its Agartala to Bagdogra route. Flying nearly empty seats seems like bad business. The company wants to know the opportunity cost of going ahead with a scheduled round trip flight. There are two schedule flights per day.

   The following are some relevant cost data :

Salaries of crew	— ₹ 1,000 per day
Fuel	— ₹ 400 per round trip
Mortgage on plane	— ₹ 100 per day
Landing Flies	— ₹ 50 in Agartala
	— ₹ 100 in Bagdogra
Other-in-flight costs	— ₹ 100 per round trip

Calculate the opportunity cost of each round trip.   6

Please Turn Over

10. The following table describes the production possibilities of two cities,

	Pairs of Red Socks per worker per hour	Pairs of White Socks per worker per hour
Boston	3	3
Chicago	2	1

    (a) Without trade, what is the price of white socks (in terms of red socks) in Boston? What is the price in Chicago?

    (b) Which city has an absolute advantage in the production of each colour sock? Which city has a comparative advantage in the production of each colour sock?

    (c) If the cities trade with each other, which colour sock will each export?   2+2+2

11. Using supply demand diagrams show the market effect of the following events :

    (a) The cost of computer chips increases. At the same time, the income of people increases. Using graphs of market supply and demand curves, show what happens in the market for computers.

    (b) Bird flu forces the authority to cull chickens and scares the consumer from health risk.   3+3

12. (a) Prove that weighted average of income elasticities is unity.

    (b) "An individual spends all income on goods X and Y. He spends ¼th of his income on good X, whose income elasticity is 5. Hence good Y is an inferior good."— State whether the statement is true or false.   3+3

13. A person always spends one third of his income on clothing. What are his (a) own-price elasticity, (b) cross-price elasticity and (c) income elasticities of demand?   2+2+2

14. (a) You are trying to decide what to order :
    Drinking a lemon juice gives you marginal utility of 32, while drinking a cup of tea gives you a marginal utility of 27. Let the price of a lemon juice is ₹ 4 and the price of tea is ₹ 3. What will you order and why?

    (b) What will happen as a result of the good you order? Explain the relation between the behaviour of consumer and law of demand.   2+4

15. Consider a three-person city that is considering a fireworks display. 'A' is willing to pay ₹ 100 for the proposed fireworks display, while 'B' is willing to pay ₹ 30 and 'C' is willing to pay ₹ 20. The cost of the fireworks display is ₹ 120.

    (a) Will any single citizen provide the display on his own? Explain.

    (b) If the cost of the fireworks display is divided equally among the citizens, will a majority vote in favour of display? Explain.

    (c) Describe a transaction that would benefit all three citizens.   2+2+2

16. (a) Explain what is meant by the term "free-rider". Can an individual be a free-rider while consuming a public good?

    (b) Explain the tragedy of commons with an example.   (3+1)+2