

Bangabasi College
Test Examination, 2016
B.Sc (Hons.) (1+1+1 System), Part II
ECONOMICS (Hons)

Full marks: 50 + 50

Time: 4 Hrs.

Section A

1. Answer any *five* questions (5×4):

- (a) Data obtained of a firm is as follows: $MP_L = 10$, $MP_K = 25$, $w = \text{Rs } 20$, $r = \text{Rs } 15$. Explain why these data prove that the firm is run inefficiently. How would you improve efficiency if you are put in charge of the firm?
- (b) Answer whether the following statements are true or false or uncertain stating reasons:
(i) Under CRS at all levels of output, the LAC curve will be downward sloping.
(ii) If $P = AVC_{\min}$, firms will shut down under perfect competition. (2+2)
- (c) Explain the differences in the characteristics of a monopolistically competitive firm and perfectly competitive firm.
- (d) A profit-maximizing firm will generally choose third stage of the returns to a variable factor during short-run. Do you agree?
- (e) Under a decreasing cost industry, explain the nature of long-run supply curve in a perfectly competitive market structure.
- (f) Draw the indifference maps indicating the direction of preferences in the following cases: (i) Swetankana does not like mango juice or pineapple juice alone but likes to have a mocktail of them. (ii) Swyamprabha likes more money to less. He also likes to work out mathematical problems but only up to 4 problems a day, after which he gets sick. (2+2)
- (g) Show that the success of monetary policy depends largely on the strength of the fiscal policy.
- (h) Consider an economy described by the following equations: $Y = C + I + G$; $Y = 5000$; $G = 1000$; $T = 1000$; $C = 250 + 0.75(Y - T)$; $I = 1,000 - 50r$. (i) In this economy, compute private saving, public saving and national saving. (ii) Find the equilibrium interest rate. (2+2)
- (i) The government raises taxes by Rs 10 billion. If the marginal propensity to consume is Rs 0.6, what happens to (i) national savings and (ii) investment? (2+2)
- (j) What is paradox of Thrift?

2. Answer any *three* questions (3×10):

- (a) Consider the cost function $C(x) = 15x - 6x^2 + x^3$. Is it a short-run or long-run cost function? Find out the average cost and marginal cost. Find out the value of x for which AC is minimum and show that $MC = AC$ at this stage.
- (b) Explain the pattern of utility functions when the consumer is (i) risk-averter, (ii) risk-neutral and (iii) risk-lover. Suppose that an individual's utility function is $U(w) = w^2$. Is the person a risk lover? Will he accept a gamble where there is a chance of winning Rs 20 and of losing Rs 20 with equal probability, if his initial wealth is Rs 100?
- (c) Consider the cost function $C(q) = q^3 - 60q^2 + 1500q + 150$; Find out the variable cost, fixed cost, average variable cost, average fixed cost, average cost, and marginal cost. Explain the reason behind the U-shape of Short-run Average Cost curve.
- (d) Examine the effectiveness of fiscal policy under the following situations:
(i) Given the LM curve and difference in interest sensitivity of investment function.
(ii) Variation in interest sensitivity of the speculative balance in the money market with expansionary fiscal policy
- (e) The IS function is $0.60Y + 5r = 480$ and the LM function is $0.50Y - 10r = 175$ are given. If autonomous investment is increased by 120 then find out the changes in Y and r .

Section B

3. Answer any *five* questions (5×4):
- (a) Distinguish between the notions of economic growth & economic development.
 - (b) What is Kuznets' 'inverted-U Hypothesis'?
 - (c) What is Verdoorn's law?
 - (d) State any one criticism against the Rostow's stage theory.
 - (e) How can land-labour ratio affect agricultural productivity?
 - (f) What is coordination failure?
 - (g) Mention any two features of green revolution.
 - (h) State the reasons behind the deceleration of Indian industries in mid-sixties?
 - (i) State *two* reasons for the failure of the Nehru-Mahalanobis plan.
 - (j) Mention any *two* schemes implemented by the Government for generating rural employment in India.
 - (k) State any *one* cause of the crisis of Indian economy during the 7th five year plan.
4. Answer any *three* questions (3×10):
- (a) Explain the capabilities approach towards economic development.
 - (b) Explain the notion of poverty trap as explain by Nurkse. Explain the relevance of "big push theory" of Rosenstein Rodan in overcoming this trap.
 - (c) Explain the Fisher-Clark views regarding the economic transition of a country.
 - (d) Discuss six characteristic features of modern economic growth as observed by Kuznets.
 - (e) Analyse Arrow's concept of 'learning by doing'. Explain the role of investment in education towards the expansion of human capital.
 - (f) What is the meaning of choice of technique problem? Discuss the situations where a labour-surplus economy may choose capital-intensive technology instead of labour-intensive technology.
 - (g) Critically analyse the process of industrialization and rural-urban migration in a labour-surplus economy on the basis of Lewis' model.
 - (h) Describe the features of Indian economy on the eve of independence with a reference to the colonial rule.
 - (i) "Indian plans are good in paper but are not so good in implementation"—logically explain the statement.
 - (j) What were the structural constraints to the implementation of developmental planning in India?
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