swer all Questions   Time: 03 Hours

. a)   What are the three basic questions that any economic system must address?
                                                                      (4 Marks)

   b)   What happens to the equilibrium price if the supply curve shifts to the right?
                                                                      (4 Marks)

   c)   Graphically explain consumer surplus and producer surplus.
                                                                      (6 Marks)

   d)   Explain how law of demand is applicable to reduce smoking.
                                                                      (6 Marks)
                                                              (Total 20 Marks)

2. a)   What is the difference between elastic and inelastic demand?
                                                                      (4 Marks)

   b)   If the price elasticity of demand for textbooks is 2 and the price of textbooks
        increases by 10 percent, by how much does the quantity demanded fall?
                                                                      (4 Marks)

   c)   Explain the law of diminishing marginal utility with suitable example?
                                                                      (6 Marks)

   d)   Using the following information, find out the optimal combination of X and Y to get
        consumer equilibrium.
        $Tu_x = 120x - 10x^2$ $Px = 20/=$ $Py = 10/=$
        $Tu_y = 110y - 10y2$ $I = 100/=$

                                                                      (6 Marks)
                                                              (Total 20 Marks)

03) a)   What do you understand about Ordinal Utility Approach?
                                                                      (4 Marks)

    b)   Why does the consumer choose a point where the indifference curve is tangent to the
         budget line?
                                                                      (4 Marks)

c) Sarah has $20 to spend on slices of pizza and cans of cola. Pizza costs $1 per slice, and cola costs $.50 per can.

a. Graph Sarah's budget line for pizza and cola.

b. Suppose Sarah's total budget for pizza and diet cola increases to $25. How does her budget line shift? (6 Marks)

d) Graphically show the derivation of demand curve from Price Consumption Curve (PCC). (6 Marks)

(Total 20 Marks)

04) a) How is marginal product related to total product? (5 Marks)

b) What do you understand about the concept of return to scale? (5 Marks)

c) "The long run average cost curve is the locus of minimum points of the short run average cost curves". Explain. (5 Marks)

d) Fill out the entries in the table below.

Q	TC	FC	VC	ATC	AVC	MC
0	8					
1	12					
2	14					
3	20					
4	30					
5	50					

(5 Marks)
(Total 20 Marks)

05) a) What is meant by price discrimination? (4 Marks)

b) Briefly explain the characteristics of oligopoly firm? (4 Marks)

c) How are price and output determined under monopoly? (6 Marks)

d) Explain the equilibrium of the perfect competitive market in the Long run. (6 Marks)

(Total 20 Marks)