

FAR WESTERN UNIVERSITY  
Semester End Examination-2081  
Principles of Microeconomics (ECO 114)

Faculty: Management (BBA)

Level: Undergraduate

Semester: First

Full Marks: 100

Time: 3hrs.

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

*The figures in the margin indicate full marks.*

**Group – 'A'**

**Attempt all questions (Short answer questions)**

**10×2=20**

1. Why micro-economics is also known as 'Price Theory'?
2. Mention any four differences between micro-economics and macro-economics.
3. Define movement along demand curve.
4. Define ceiling price and floor price.
5. List out any two differences between cardinal and ordinal utility analysis.
6. Define Iso-cost line.
7. What do you mean by explicit and implicit cost?
8. What is the relationship between AR and MR under perfect competition market?
9. What are the major features of monopoly market?
10. Mention the formula for business profit and economic profit.

**Group – 'B'**

**Attempt any six questions. (Long answer questions)**

**6×10=60**

11. Explain the concept of economic model. Write any four uses of economic model. **(8+2)**
12. What is elasticity of demand? Discuss the measurement of price elasticity of demand by point method. **(2+8)**

13. If the prices of two goods say X and Y are Rs. 200 and Rs 100 respectively and total consumer's total budget is Rs. 1200 then
- Calculate budget constraints. **(2.5)**
  - If the consumer spend his income equally for X-goods and Y-goods, then calculate the required units of X-and Y-goods. **(2.5)**
  - If the consumer's income has been increased to Rs. 2000, then calculate new budget constraint. **(2.5)**
  - After increase in income if the consumer spent Rs. 600 for X-goods and Rs. 1400 for Y-goods then calculated the required units of X-goods and Y-goods. **(2.5)**
14. Analyze the consumer's equilibrium under indifference curve analysis.
15. The following is a short-run production function of a firm:  
 $Q = 20L^2 - 0.5L^3$ , where Q is output and L is units of labour used.  
 Calculate:
- Average production function. **(2.5)**
  - Marginal production function **(2.5)**
  - Output maximizing unit of labour **(2.5)**
  - Units of labour at which AP and MP are maximum. **(2.5)**
16. Define average cost and marginal cost. Analyze the relationship between average cost and marginal cost. **(3+7)**
17. Explain the short-run equilibrium of a firm under perfect competition.
18. Critically explain the liquidity preference theory of interest.

**Group – 'C'**

19. Read the given case and answer the questions that follow: **[20]**

Kalamiti has identified two distinct customer segments in the market: restaurants and individual consumers. Restaurants, which purchase vegetables in large quantities for their daily operations, have a relatively more inelastic demand compared to individual consumers. Individual consumers, on the other hand, typically buy smaller quantities for household consumption and are more sensitive to price changes.

Vegetable prices have continued to go up in the Kathmandu Valley despite rise in supply from various parts of the country. The Kalimati Vegetable

Market, the largest vegetable market in the country, is currently receiving around 600 tonnes of vegetables per day. Around three days ago, the daily supply stood at around 400 tonnes. Despite 50 percent hike in vegetable supply, prices of most of the vegetables are currently going up exerting pressure on household budget.

The deputy director of the Kalimati Fruits and Vegetable Market Development Board, said it is a normal phenomenon for vegetable prices to increase during monsoon, as rain causes damage to the green produce.

Yet the rate of price hike is higher this year because of floods and heavy rain that damaged or destroyed vegetables in various parts of the country. Also, road blockades triggered by landslides, which have disrupted supplies, have played a role in raising prices.

Many retailers are now taking undue advantage of the situation to further jack up prices. This, however, should not mean all retailers are profiteering, as those who have received substandard vegetables, like those spoiled by rain or other adverse weather conditions, are being forced to increase retail prices to cover up losses. The Valley generally gets most of its vegetable supplies from Kavrepalanchowk, Dhading, Makwanpur and Nuwakot. Although these places are not much affected by floods, incessant rain has caused some damage to vegetables grown in these areas, leading to price hike.

The situation at the Kalimati vegetable market has not returned to normal, as it is still seeing a supply shortfall of around 100 tonnes per day. The market used to receive around 700 tonnes of vegetables on normal days.

**Questions:**

- What is price discrimination and how does it apply in the context of the Kalimati vegetable market? **(4)**
- Why vegetable prices have continued to go up in the Kathmandu Valley despite rise in supply? Give your answer with reasons. **(4)**
- Describe the possible pricing strategy of Kalimati vegetable market. **(4)**
- What are the main reasons for rise in price of vegetables during monsoon? **(4)**
- Give your suggestions regarding the price control of the vegetable in Kathmandu Valley. **(4)**

