

M.A. 1st Semester Examination, 2012

ECONOMICS

PAPER – III (ECO-103)

Full Marks : 40

Time : 2 hours

*The figures in the right hand margin indicate marks
Candidates are required to give their answers in their
own words as far as practicable*

Illustrate the answers wherever necessary

GROUP – A

1. Answer any *five* questions : 2 × 5
- (a) Define team production.
 - (b) Why is PPF (Production Possibility Frontier) normally concave to the origin ?
 - (c) What do you mean by market failure ?
 - (d) How is the leverage condition of a firm defined ?
 - (e) What do you mean by entry deterrence ?

(Turn Over)

- (f) What is a concentrated industry ?
- (g) Define vertical merger.
- (h) What are Sunk costs ?
- (i) Mention any two reasons for the growth of MNCs in Indian economy.
- (j) Why India gets Limited Foreign Direct Investment ? Mention any two major reasons.

GROUP – B

Answer any two questions : 5 × 2

- 2. Define public good externality. Show how public good externality leads to market failure. 5
- 3. Distinguish between vertical and horizontal integration in a firm. 5
- 4. Show that a merger between an upstream and a downstream firm increases the output level of the merged firm and reduces the output level of the downstream firm that does not merge, given that the demand equation is $p = \alpha - q_1 - q_2$, where $\alpha > 0$ and q_1 and q_2 are the output levels sold by downstream firms 1 and 2 and c_1 and c_2 are input prices paid by firm 1 and 2 respectively. 5

5. Prove that for any level of sunk cost-satisfying $0 < \epsilon < \pi^M$, there exists a unique subgame perfect equilibrium where firm A is a monopoly earning $\pi^A = \pi^M - \epsilon$ and firm B stays out where ϵ is the sunk cost, π^A is the profit of firm A and π^M denotes the monopoly's profit level, not including the entry cost it has already sunk in. 5

GROUP – C

Answer any two questions : 10 × 2

6. Define a firm. Explain the main reasons behind the existence of a firm in an otherwise market economy. 10
7. What do you mean by an optimum firm? Through what forces is the optimum size of a firm determined? Discuss. 10
8. What are the harmful and beneficial effects of the operation of MNCs in Indian economy? 10
9. Derive the different values of entry cost under which occurs blockaded entry and indifference between deterrence and accommodation. 10