2015

M.A. / M.Sc.

1st Semester Examination

ECONOMICS

PAPER—ECO-103

Full Marks : 40

Time : 2 Hours

The figures in the right-hand margin indicate full 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 *two* questions of the following :   2×2

   (a) What do you mean by pecuniary externality ?

   (b) What do you mean by non-market economics organisation ? Give an example.

   (c) Do you think that the market economy has no organisational cost ? Briefly explain.

(d) What is managerial division of labour ?

2. Answer any *one* question of the following : 1×6

(a) Modern firms do not try to maximize profit. They try to maximize revenue subject to profit constraint. Express this constrained optimisation problem in terms of a Lagrangean multiplier and derive the interpretation of that multiplier.

(b) Show that Pareto optimality is necessary but not sufficient for maximisation of social welfare.

3. Answer any *one* question of the following : 1×10

(a) Given the production possibility frontier $f(x, y)=0$ in a two commodity (x, y) and two individual (A, B) economy, obtain the conditions of Pareto optimality when (i) both x and y are private goods and (ii) when one is private and the other is a public good. Prescribe two sets of sufficient SOC for these two cases.

(b) What do you mean by the leverage condition of a firm ? Explain how the optrnum leverage condition of a firm is determined in the Miller-Modigliani Model.

Group—B

4. Answer any *two* questions of the following :   2×2

   (a) How do you define a concentrated industry ?

   (b) What are conglomerate mergers ?

   (c) Distinguish between horizontal mergers and vertical mergers.

   (d) Define contestable market.

5. Answer any *one* question of the following :   1×6

   (a) Discuss any two standard measures of Concentration.

                                                        3+3

   (b) A bicycle industry consists of seven firms. Firms 1, 2, 3, 4 each has 10% market share and firms 5, 6, 7 each has 20% market share. Calculate the Herfindahl Hirschman Index (I_{HH}) for this industry. Now suppose that firms 1 and 2 merge, so that the new firm will have a market share of 20%. Calculate the post merger I_{HH}. Also calculate the change in I_{HH} caused by merger ie. find ΔI_{HH}.

                                                        2+2+2

6. Answer any *one* question of the following :   1×10

   (a) Determine the value of the entrant firm's entry cost for which there exists.

(i) blockaded entry

(ii) entry deterrence

Considering a two period leader follower game where firms decide how much capital to invest.

(b) Show with the help of an example that A merger into a single monopoly firm between firms producing complementary products would.

(i) reduce the price of systems.

(ii) increases the number of systems sold

(iii) increase the sum of profits of the two firms.

In this context, explain how the demand externality is internalized ?

3+3+3+1

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