

BACHELOR'S DEGREE PROGRAMME

Term-End Examination

December, 2007

ELECTIVE COURSE : COMMERCE

ECO-6 : ECONOMIC THEORY

Time : 2 hours

Maximum Marks : 50

(Weightage 70%)

Note : *The paper contains **three** sections A, B and C.
Instructions are given in each section along with marks.*

SECTION A

*Answer any **two** questions from this section. 2×12=24*

1. Discuss the working of 'price-mechanism' in a free-enterprise market economy. Does 'price-mechanism' always lead to efficient allocation of resources in a mixed economy ?
2. (a) What are the properties of indifference curves ?
(b) Explain the income effect and the substitution effect of a fall in the price of a commodity. Use suitable diagrams.

3. Why is the short-run average cost curve U-shaped ? How is the long-run average cost curve related to the short-run average cost curve ? What is the relationship between the average cost curve and the marginal cost curve in the long run ?
4. Distinguish between 'marginal revenue product' and 'value of marginal product'. How does marginal revenue product explain the market demand for a factor of production ?

SECTION B

Answer any **two** questions from this section. 2×8=16

5. Write short notes on the following :
 - (i) Internal and external economies of scale
 - (ii) Lorentz curve
6. Explain the case for and against monopoly.
7.
 - (i) Explain the features of modern corporations.
 - (ii) Examine profit as a reward for bearing uncertainty.
8. Discuss the determinants of demand for a product.

SECTION C

9. Distinguish between any **two** of the following : $2 \times 5 = 10$

- (i) Normal good and Inferior good
- (ii) Personal distribution and Functional distribution of income
- (iii) Rent and Quasi-rent
- (iv) Returns to scale and Returns to a factor