ALLAMA IQBAL OPEN UNIVERSITY, ISLAMABAD
(Department of Economics)

WARNING

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Course: Advanced Microeconomics (2700)

Level: M. Phil. Economic **Semester: Spring, 2013**
Total Marks: 100

ASSIGNMENT No. 1
(Units 1–4)

Q.1 Derive ordinary demand curve for X and Y assuming

$$U = XY$$

What are the price and income elasticities? If $P_Y = 1$, M (income) = 150 derive the compensated demand curve for 'X" and compare its slope with the ordinary demand curve. (20)

Q.2 Elaborate the concept of elasticity of substitution. What is CES production function? Enlist and explain the properties of CES production function. (20)

$$Y = [0.4K^{-1} + 0.6\,L^{-1}]^{-1}$$

What is the elasticity of substitution?

Q.3 A competitive firm faces a demand, X = 400 – 4P (20)

Each firm faces identical cost conditions

$$C_i = 200 + 10X_i + 2X^2_i$$

Where X_i = output of the firm

C_i = cost of the firm

What is the equilibrium output and price?

Q.4 (a) A flour mill has the following demand and supply schedules for technical workers in rupees per month. (10)

$$W^D = 4000 - 20\,X$$
$$W^S = 1000 + 20\,X$$

Determine the wages paid to the technical workers. Also show the price elasticity at that point.

(b) Explain the monopolistic exploitation with the help of diagram. Also give some practical examples in case of Pakistan. (10)

Q.5 Define oligopoly. Also explain the cournot solution for duopoly. Suppose that $P = 1 - x^A - x^B$ and both firms A and B have zero costs. Each believes it will get a constant, one half, share of the market. What is the equilibrium output of the industry? Comment? (20)

ASSIGNMENT No. 2

(Units 6–9) **Total Marks: 100**

Q.1 Discuss in detail the individual behaviour towards risk with special reference to insurance and gambling. (20)

Q.2 Discuss the structure of uncertainty in detail. Let the payoff matrix for a farmer is as under. (20)

Plan	**Rain**	**No Rain**
Fertilizer	50	10
No Fertilizer	30	20
Probability	0.50	0.50

What would the farmer do, if he is?

i. A risk lover?

ii. Risk neutral?

iii. Risk averse?

Q.3 Discuss three conditions for efficiency in detail. (20)

Q.4 Discuss the existence, stability and uniquencess of equilibrium in case of pure exchange (consumption without production). Suppose consumers of type A and endowed with the total supply of X and consumers of type B with the total supply of Y. $U^A = X^A\ X^A$, $U^B = X^B\ X^B$. In a competitor market what is an equilibrium relative price of X? Is this equilibrium (i) unique (ii) stable? (20)

Q.5 Enlist and elaborate different criterions for welfare improvement of a society in detail. (20)