37 (Sem–2) ECO 2.1

2015

ECONOMICS

Paper : 2.1

(Advanced Microeconomics)

Full Marks : 80

Time : 3 hours

The figures in the margin indicate full marks
for the questions

1. Answer the following (each within *50* words) :
   2×4=8

   (a) An individual faces the prospect of having income of ₹ 1,600 and ₹ 900 with probabilities of 0·8 and 0·2 respectively. If her utility function is given by $\sqrt{y}$, where y stands for income, calculate her expected utility.

   (b) What is deadweight-loss?

   (c) How is Halm's non-tatonnement process fundamentally different from Walrasian tatonnement?

   (d) How is coinsurance different from reinsurance?

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2. Answer any *three* of the following (each within *300* words) : 8×3=24

(a) Using the axioms of revealed preferences, derive the law of demand.

(b) Explain why discounting is necessary in the analysis of intertemporal choice.

(c) Explain the problem of moral hazard in insurance.

(d) How is general equilibrium approach to an economic problem different from the partial equilibrium approach to it? Explain.

(e) State the first fundamental theorem of welfare economics. Discuss the implications of the theorem.

3. Answer any *three* of the following (each within *750* words) : 16×3=48

(a) Explain the nature of the indifference map when the consumer is satiated with *(i)* one of the two goods and *(ii)* both the goods.

(b) Explain the nature of the utility function of a risk averter. Using the utility function, illustrate the concepts of certainty equivalence and the cost of risk.

(c) State and illustrate the separation theorem of intertemporal production and consumption decision.

(d) Give an outline of the Walrasian economy. Show that the Walrasian system can at best determine the price ratios, not the absolute levels of the price.

(e) What is an externality? Show that in presence of externalities the competitive market equilibrium is not socially optimal.

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