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INTRODUCTORY MICROECONOMICS

B.E.C.C.-101

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**Sample Preview
of the
Solved
Sample Question
Papers**

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QUESTION PAPER

December – 2023

(Solved)

INTRODUCTORY MICROECONOMICS

B.E.C.C.-101

Time: 3 Hours]

[Maximum Marks : 100

Note: Answer questions from each section as per instruction given. **Section-A:** Answer any two questions from this section. **Section-B:** Answer any four questions from this section. **Section-C:** Answer both the questions.

SECTION – A

Q. 1. (a) Bring out the main differences and similarities in the micro and macro approaches of economics.

Ans. Ref.: See Chapter-1, Page No. 17, Q. No. 12.

(b) “An economy always produces on the PP-curve rather than anywhere inside it.” Discuss.

Ans. Ref.: See Chapter-1, Page No. 3-4, ‘Does Production take Place Only on the PP Curve’.

(c) Distinguish between the following:

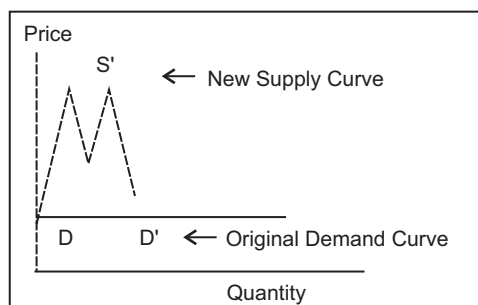
(i) Static and Dynamic Economies

Ans. Ref.: See Chapter-1, Page No. 18, Q. No. 12 (b).

(ii) Public Goods and Private Goods

Ans. Ref.: See Chapter-1, Page No. 7, Q. No. 8.

Here’s a simple diagram to illustrate:



In the diagram, the original equilibrium price and quantity are determined at the intersection of the demand curve (D) and the supply curve (S). When the \$500 tax is imposed, the supply curve shifts upward to S', causing the price paid by consumers to increase to a new equilibrium point (where D' intersects with S'). The price paid by consumers rises by more than \$500, as indicated by the vertical distance between the original equilibrium price and the new equilibrium price.

(b) Critically evaluate Cardinal Utility Approach.

Ans. Ref.: See Chapter-4, Page No. 49, ‘Critical Evaluation of Cardinal Utility Analysis’.

Q. 2. (a) If the government places a ₹ 500 tax on luxury cars, will the price paid by consumers rise by more than ₹ 500, less than ₹ 500, or exactly ₹ 500? Explain diagrammatically.

Ans. When the government imposes a \$500 tax on luxury cars, the price paid by consumers will rise by more than \$500. This is because the tax shifts the supply curve upward by the amount of the tax, resulting in an increase in price and a decrease in quantity demanded. The burden of the tax is shared between producers and consumers, but ultimately, consumers bear a larger portion of the burden due to the decrease in quantity demanded.

(c) Explain diagrammatically how is consumer’s surplus determined in Marshallian economics.

Ans. Ref.: See Chapter-4, Page No. 49, ‘Consumer’s Surplus’.

Q. 3. (a) Distinguish between returns to a variable proportions and returns to scale.

Ans. Returns to a variable proportion and returns to scale are both concepts used in production theory, but they focus on different aspects of production and occur under different circumstances:

Returns to a Variable Proportion: This concept assesses the relationship between the varying input

QUESTION PAPER

June – 2023

(Solved)

INTRODUCTORY MICROECONOMICS

B.E.C.C.-101

Time: 3 Hours]

[Maximum Marks : 100

Note: Answer questions from each section as per instruction given. **Section-A:** Answer any **two** questions from this section. **Section-B:** Answer any **four** questions from this section. **Section-C:** Answer both the questions.

SECTION – A

Q. 1. (a) Can we use production possibility curves to demonstrate production under increasing and constant cost conditions. Explain with the help of diagrams.

Ans. Yes, Production Possibility Curves (PPCs) can indeed illustrate production under increasing and constant cost conditions.

1. Increasing Cost Conditions

- In this scenario, as more of one good is produced, the opportunity cost of producing another good increases. This reflects diminishing returns or scarcity of resources.
- The PPC will be concave to the origin, indicating that as the quantity produced of one good increases, the quantity of the other good that must be sacrificed increases at an increasing rate.
- This implies that society must give up more and more of one good to produce each additional unit of the other good.

2. Constant Cost Conditions

- Here, the opportunity cost of producing one good in terms of the other remains constant regardless of the level of production.
- The PPC will be linear, showing a constant rate of transformation between the two goods.
- This suggests that resources are perfectly substitutable between the production of the two goods, or that the production process has constant returns to scale.

These diagrams visually demonstrate how production possibility curves can illustrate different cost conditions in the production process.

(b) “As long as resources are fully employed and every firm in the economy is producing its

output using the best available technology, then the utilisation of resources will be efficient.” Do you agree with this statement? Explain your answer.

Ans. While the statement captures an ideal scenario, it oversimplifies the complexities of resource allocation and efficiency in an economy. Here’s a breakdown:

Fully Employed Resources: Utilizing all resources doesn’t guarantee efficiency. It’s possible to have full employment but still have inefficiencies due to factors like misallocation of resources, technological inefficiencies, or the presence of externalities.

Best Available Technology: While using the best available technology is crucial for efficiency, it doesn’t ensure it alone. Efficiency also depends on how resources are combined and allocated, which involves factors like managerial skill, organization, and market structure.

Dynamic Nature of Technology: Technology evolves over time. Even if firms use the best available technology today, it may become outdated tomorrow. Continuous innovation and adaptation are necessary to maintain efficiency in the long run.

Market Imperfections: In real-world economies, markets may not always function perfectly. Imperfections like monopolies, externalities, or information asymmetries can lead to resource misallocation and inefficiency, even with full employment and advanced technology.

Distribution of Output: Even if resources are fully employed and efficiently utilized, the distribution of output may not be equitable. Efficiency alone doesn’t address issues of income inequality or social welfare.

In conclusion, while full employment and the use of advanced technology are essential components of resource efficiency, they’re not sufficient on their

Sample Preview of The Chapter

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INTRODUCTORY MICROECONOMICS

Introduction to Economics and Economy

1

INTRODUCTION

Definition of Economics

Economics encompasses various aspects:

Analyzing how a society's institutions and technology influence prices and resource allocation. Exploring financial markets, including interest rates and stock prices. Examining income distribution and suggesting ways to assist the poor without harming the economy. Studying the business cycle and utilizing monetary policy to mitigate unemployment and inflation fluctuations. Analyzing trade patterns among nations and the impact of trade barriers.

Examining growth in developing countries and proposing strategies for efficient resource use. Exploring government policies to achieve goals like economic growth, resource efficiency, full employment, price stability, and fair income distribution.

Economics is defined as the science dealing with scarcity, where resources are limited. It studies how individuals, households, firms, government, and the economy as a whole behave when faced with scarcity, aiming to find efficient ways to allocate scarce resources.

CHAPTER AT A GLANCE

CONCEPT OF SCARCITY

Scarcity is fundamental to economics, manifesting in two key aspects:

A. Unlimited Wants: Individuals possess diverse and evolving desires, with varying intensities. Wants continually expand, prioritized based on available resources. Higher-order wants are fulfilled before lower-order ones if resources permit.

B. Scarce Resources: Fulfilling wants demands resources, which are limited relative to needs. Resources are finite but offer alternative uses, necessitating systematic allocation.

These principles underpin all economic activities, shaping human behaviour and driving the need for efficient resource management.

Every economy, regardless of its nature or level of development, must confront the fundamental issue of scarcity: the imbalance between limited means and expanding wants. To address this, societies must focus on two key aspects: increasing the availability of resources and establishing priorities for satisfying wants.

MEANING OF PRODUCTION

Production involves transforming inputs into outputs, enhancing their capacity to satisfy human wants. This process entails physical and intellectual effort, resulting in goods and services. Transformation can be physical, spatial, or inter-temporal. Production occurs when the output's utility exceeds that of the inputs, essentially creating utility.

CENTRAL PROBLEMS OF AN ECONOMY

What to Produce?

Every economy, due to resource scarcity, confronts fundamental problems it must address within its socio-economic structure. These core issues include:

An economy faces the dilemma of resource scarcity and must make choices about what goods and services to produce. This necessitates prioritization and allocation of productive resources. Decisions are interrelated, as producing one product means sacrificing the production of another. These issues are visualized through tools like the Production Possibility Curve.

How to Produce?

The allocation of productive resources involves determining the specific factors of production required for producing goods and services. This includes deciding the technique of production, which refers to the proportion of labour, capital, land, etc., utilized in production. Techniques can be labour-intensive or capital-intensive depending on the pre-dominant factor used. Individual producers consider input prices and productivities to choose the most cost-effective combination of inputs that maximizes output. This decision is influenced by the relative prices and efficiencies of labour and capital.

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For Whom to Produce?

In a society, goods and services produced are meant for the use of individuals and households. Distribution among them involves determining each person's share and the specific goods and services comprising that share. Different principles can guide this distribution. In a market economy, individual income shares are determined by the ownership and supply of productive resources. Resources are privately owned and their prices are determined by market forces of demand and supply. Individuals earn income based on the resources they own and supply to the market, and the prices they receive for them.

The Problem of Growth

Economies aim to boost production capacity and income by increasing their capital stock. Income in an economy can be used for consumption expenditure (C) or saving (S), where $Y = C + S$. Saving finances investment, which adds to the capital stock, necessitating a reduction in consumption expenditure to increase investment for capital formation.

Choice between Public and Private Goods

Private Goods: Certain goods/services can be restricted to selected individuals through pricing. This principle of exclusion allows only those who pay for it to use it. Use of these goods is divisible among different persons. Private goods are characterized by their ability to be priced and restricted to selected individuals.

Public Goods: Goods/services that cannot be restricted to selected individuals are termed as public goods. Pricing these goods/services in a way that deprives some individuals from using them is not feasible. Public goods are indivisible; they are available to all individuals. Examples include – defense services, where every citizen benefits from protection against foreign aggression.

The Problem of 'Merit Goods' Production

Merit goods are those whose consumption is highly desirable for members of society. The key feature of

merit goods is that their consumption benefits both the individual user and non-users. For example, education and healthcare not only benefit the individual but also society as a whole. The consumption of merit goods contributes to the overall efficiency and well-being of society. Therefore, societies must determine the extent to which they should produce and consume merit goods to enhance societal welfare.

PRODUCTION POSSIBILITY CURVE

The economy faces the challenge of choosing between different combinations of goods and services, illustrated by the Production Possibility Curve (PPC). Assumptions underlying the PPC include:

- (i) Only two goods are considered, such as LED (L) and computer monitors (M).
- (ii) Productive resources and technology are fixed.
- (iii) All resources are fully utilized without waste.
- (iv) Resources can be shifted between the production of goods, but this alters their respective outputs.
- (v) No resource is specific to the production of one good only.
- (vi) Productive efficiency is measured solely in physical terms, i.e., units of LED and computer monitors produced.

The Production Possibility Curve (PPC) illustrates all possible combinations of two goods, L and M, that can be produced using all the available productive resources of an economy efficiently. Each point on the PPC represents the maximum possible output, also known as the production frontier of the economy. The PPC is derived from a hypothetical example, as shown in Table below and represented in Figure where the quantity of M is measured along the X-axis and the quantity of L along the Y-axis.

Table: Production Possibilities Available to a Country

Combination	LED (Numbers) (L)	Computer Monitor (M)	Loss of M for each Additional L Produced (Tonnes)	Loss of L for each Additional M Produced (Numbers)
1	30	0	2.8	
2	25	14	1.2	0.357
3	20	20	0.8	0.833
4	15	24	0.6	1.250
5	10	27	0.4	1.667
6	5	29	0.2	2.500
7	0	30		5.000

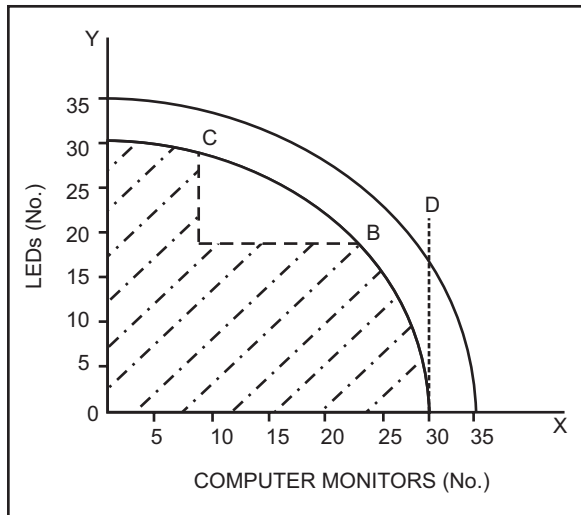


Fig.

The Production Possibility Curve (PPC) and shaded area on the diagram represent feasible production combinations for an economy. Points within the shaded area imply the ability to produce either L or M or both. However, not all feasible points are efficient. For instance, point A utilizes resources inefficiently.

Points B and C, on the other hand, are both feasible and efficient. Any point beyond the PPC, in the non-shaded area, represents combinations the economy cannot produce. For instance, point D represents a combination where producing 30 M exhausts resources, leaving none for L, or producing 20 L requires reducing M to 20.

Characteristics of PPC:

Downward sloping from left to right: It implies that producing more units of one good requires sacrificing some units of the other due to limited resources.

Concave to the Origin: It indicates an increasing slope, with the slope representing the Marginal Rate of Transformation (MRT).

Concavity implies an increasing MRT, a fundamental assumption underlying the PPC.

Can PP curve be a straight line?

The Production Possibility Curve (PPC) can be a straight line if the Marginal Rate of Transformation (MRT) is constant, indicating a consistent slope. This occurs when all resources are equally efficient in producing all goods. However, a typical PPC is often depicted as a concave curve, reflecting the more realistic assumption that resources are not equally efficient in producing all goods.

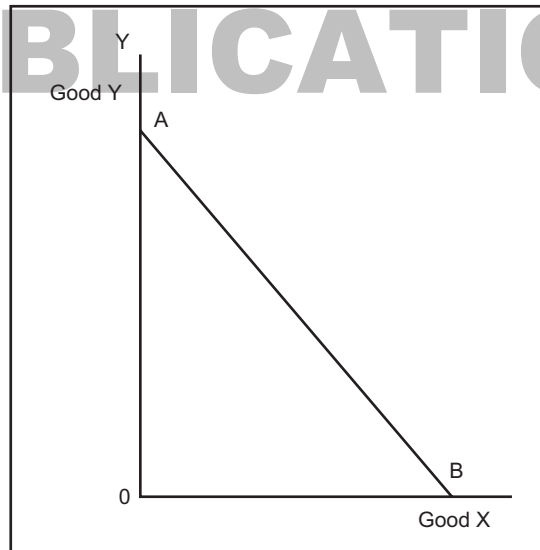
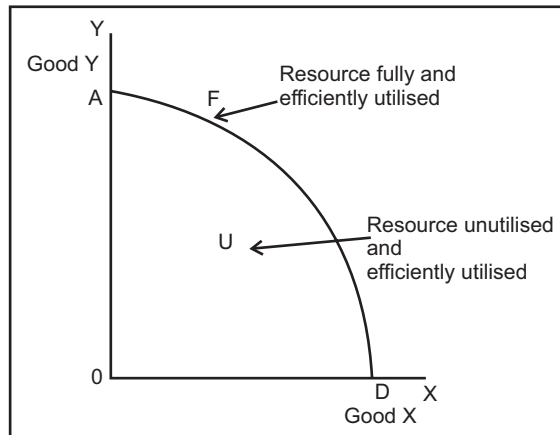


Fig.

Does production take place only on the PP curve?

The Production Possibility Curve (PPC) represents a “yes” and “no” scenario: Yes, if resources are fully and efficiently utilized, as depicted by points like F on the curve AB. No, if resources are under-utilized or inefficiently utilized, as shown by points below the curve like U on Fig. ahead. Points below the PPC indicate a problem of unemployment and inefficiency in the economy.

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Can the PP curve shift?

Yes, if resources increase, such as more labour, capital goods, or improved technology, it leads to increased production of both goods. However, the Production Possibility (PP) curve is based on the assumption of unchanged resources. If resources increase, this assumption is invalidated, and a new PP curve emerges to the right of the existing one.

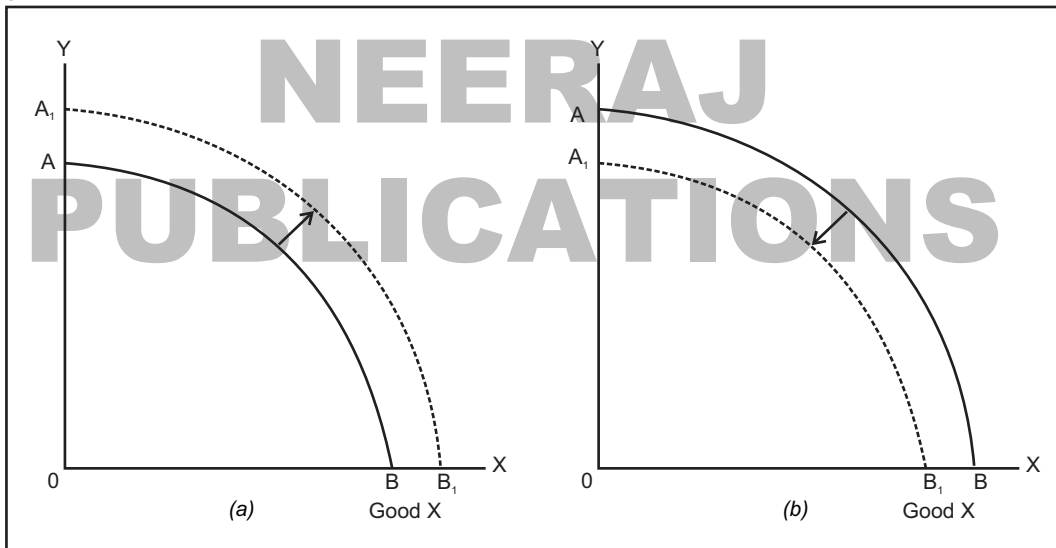


Fig.: (a) and (b)

The Production Possibility (PP) curve can also shift to the left if resources decrease. This scenario is uncommon but can occur due to a decline in population or destruction of capital stock caused by large-scale natural disasters, war, etc.

ALLOCATION OF RESOURCES: SOLUTION OF CENTRAL PROBLEMS

Theoretically, economic systems can be broadly categorized into capitalism and socialism. Each economy tackles the problem of resource allocation according to its own objectives and priorities.

Resource Allocation in a Mixed Economy

In a mixed economy, some decisions are left to market forces while others are regulated or owned by the government. Certain economic activities are

reserved for the government sector, which acquires resources and directs production according to its priorities. The government's production pattern, prices of goods, and other measures regulate resource allocation in the private sector, including price controls, licensing, taxation, and subsidies. Additionally, the government implements labour welfare measures and encourages resource use for developing backward areas and achieving balanced economic development.

ECONOMIC METHODOLOGY AND ECONOMIC LAWS

Economic methodology investigates the nature of economics as a science, examining assumptions, reasoning, and forms of explanations used. Practices like classification, description, explanation, measure-