UNIVERSITY OF THE PUNJAB

B.S. 4 Years Program / Third Semester – Spring 2022

Roll No. ....

Paper: Intermediate Micro Economics **Course Code: ECON-201** **Time: 3 Hrs. Marks: 60**

THE ANSWERS MUST BE ATTEMPTED ON THE ANSWER SHEET PROVIDED

Q.1. Answer the following short questions: **(6x5=30)**

1) **Budget line**
2) **Cross price elasticity of demand**
3) **Giffen goods**
4) **Slutsky equation**
5) **Principle of Increasing marginal utility cost in reference to Production Possibility Curve**
6) **Pareto Optimal Allocation**

Q.2. Answer the following questions.

1) Suppose that the price of coffee is Rs. 30 and price of a donut Rs. 60. Also assume that your daily income is Rs. 120. Now suppose that the price of coffee increases to Rs. 40.

a) Graphically show the original budget set and the new budget set after the increase in the price of coffee. [3 marks]

b) Graphically show the income effect and the substitution effect. [4 marks]

c) Compute cross price elasticity of demand for donut due to change in price of coffee. [3 marks]

2) a) Suppose a firm is maximizing profits in the short run with variable input x_1 and fixed input x_2. If the price of x_2 goes down, what happens to the firm's use of x_1? [4 marks]

b) What happens to the firm's level of profits? [2 marks]

c) By increasing or decreasing its profits, would the firm's stock market value also increase or decrease? [4 marks]

3) a) Describe price discrimination and discuss the conditions under which a firm may choose to follow price discrimination strategy. [5 marks]

b) Graphically show the profit maximizing situation of a firm (operating in perfect competition) where the firm is suffering from losses but is not shut down. [5 marks]