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(November–December)

ECONOMICS

(Honours)

(Advanced Economic Theory)

Marks : 75

Time : 3 hours

The figures in the margin indicate full marks for the questions

Answer **five** questions, taking **one** from each Unit

UNIT—I

1. *(a)* Using compensating variation method, show the decomposition of price effect for a fall in the price of good *X*, assuming *X* is a Giffen good. 7

   (b) Make a comparison of the Marshallian ordinary demand curve, Hicksian and Slutsky's compensated demand curves. 8

2. (a) How is Lancaster's approach to consumer theory different from the traditional theories of consumer behaviour? 3

(b) Using Lancaster's approach, explain the following : 7+5=12

(i) The derivation of the law of demand

(ii) The effect of a new product on the sales of other products in the market

UNIT—II

3. (a) For a linear production function

$$Q = AL^{\alpha}K^{1-\alpha}$$

show that elasticity of substitution is one. 5

(b) Prove that the CES production function exhibits constant returns to scale. 5

(c) Show that for the CES production function, MRTS is a function of inputs ratio. 5

4. Write notes on the following : 7+8=15

(a) Elasticity of factor substitution

(b) Economies of scale

(Continued)

UNIT—III

5. (a) Explain the reasons for uniformity and symmetric assumptions to study group equilibrium under Chamberlin's monopolistic competition. 5

(b) Discuss long-run group equilibrium under monopolistic competition. Also explain why price will be higher and output will be lower in monopolistic competition as compared to perfect competition. 7+3=10

6. (a) What is the role of value judgements in welfare economics? 5

(b) (i) What are the properties of a social welfare function? 5

(ii) Explain the Bergson-Samuelson social welfare function. 5

UNIT—IV

7. (a) What is high-powered money and what are its various components? 2+5=7

(b) Show the formal relation between high-powered money and money supply. 8

(Turn Over)

8. *(a)* Explain the process of multiple credit creation with a primary deposit of ₹8,000 and CRR of 20%. 8

(b) Examine the functions of the Central Bank. 7

UNIT—V

9. *(a)* What is a trade cycle? 3

(b) "The trade cycle is a purely monetary phenomenon." Critically examine the statement. 12

10. *(a)* What are the major components of the Current Account and Capital Account of the balance of payments? 7

(b) What are the causes of disequilibrium in the balance of payments? 8

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