International Islamic University Chittagong

Department of Economics & Banking

Final Examination; Spring-2019

Program: BSS (Honors)

Course Code: ECON-2302 | Course Title: Intermediate Microeconomics

Time: 2.5 Hours | Full Marks: 50

Answer any FIVE of the following questions. All parts of a question must be answered sequentially. Figures in the right margin indicate full marks.

1. (a) Define monopoly. How is monopoly created? 03
   (b) Explain long-run equilibrium of monopoly. 05
   (c) Show that "MR (Marginal Revenue) is two times steeper than AR (Average Revenue)". 02

2. (a) Prove that the market with high price elasticity gives the opportunity to charge low price and with low clasticity given the opportunity to change high price. 06
   (b) Given the demand function: 04

   $$P = 100 - 2Q$$

   (i) Find elasticity as a function of quantity
   (ii) Find marginal revenue
   (iii)Show that inelastic demand corresponds to negative marginal revenue.

3. (a) What is monopolistic competition? What are the distinguishing features of monopolistic competition? 05
   (b) Describe Chamberlin's concept of excess capacity. What, according to him, is responsible for the emergence of excess capacity under monopolistic competition? 05

4. Diagrammatically explain the equilibrium of monopolistic competition : 10
   i. With entry; and
   ii. With price competition.

5. (a) Define oligopoly. Distinguish between collusive oligopoly and non-collusive oligopoly. 04
   (b) What is kinked demand curve? How does the kinked demand curve hypothesis explain price stability under oligopoly? 06

6. (a) Suppose there are "n" number of firms, if production in isolation is $\frac{1}{n+1}$ and combined production is $\frac{n}{n+1}$, then prove that total unproduced amount is $\frac{1}{n+1}$. 06
   (b) Firms in the group do agree to maximize joint profit rather than individual profit. How can you explicate this statement under collusive oligopoly? 04

7. Write short notes: **(any two)** 10
   (a) Second degree price discrimination;
   (b) Stackelberg model; and
   (c) Price leadership by low-cost firm.