International Islamic University Chittagong

Department of Economics & Banking

Semester Ending Examination; Spring-2022

Program: BSS (Honors)

Course Code: ECON- 4703 **Course Title:** Applied Microeconomics

Time: 2.5 Hours Full Marks: 50

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

1. (a) Define factor market? Why is demand for factor called derived demand? 03

   (b) How is wage determined under perfect competition in labour market? 03

   (c) Elucidate the derivation of labour supply curve."Labor supply curve generally slopes upward"- is the statement true? Explain why or why not? Do you think that the labor supply curve can be backward bending too? If yes, provide a justification. 04

2. (a) What is meant by exploitation of labor? Show how labour is exploited under monopsony in a labour market. Explain. 05

   (b) KDS garments hires 5 unit labor for every 4 dying machine. Unit price of labor and machine are 4 and 7 respectively. Estimated production function of the factory is found $Q = 100K^{0.3}L^{0.7}$. Do you think production process is optimum? Present your recommendation. 05

3. (a) What is general equilibrium? 02

   (b) Explain the 2×2×2 model of general equilibrium. 08

   or

   (a) What is Pareto optimality? A movement in resource allocation gives rise to an increase in utility of consumer A from 500 to 600 but reduction in utility of individual B from 700 to 600. Is the movement optimal? 04

   (b) Explain the Pareto-optimal efficiency of distribution of commodities among consumers. 06

4. (a) What is social welfare function? What are the properties of social indifference curves? Discuss. 03

   (b) Briefly illustrate the process of deriving grand utility possibility frontier. Why is this called envelope curve? Do you think each point of grand utility curve represents maximum social welfare? 07

   or

   Write short notes on the following: 10

   i. Bilateral monopoly;
   ii. Quasi-rent; and
   iii. Prisoner's dilemma.

5. (a) Distinguish between cooperative game and non cooperative game. Give examples. 02

(b) Consider the following game: 04

		Firm-B	
		Advertisement	No Advertisement
Firm-A	Advertisement	A = 10 B = 5	A = 15 B = 0
	No Advertisement	A = 6 B = 8	A = 10 B = 2

How is this game solved?

(c) Pay-offs (Profit) for Firms A & B are given in the following matrix. Evaluate whether the game has a saddle point. 04

	Firm-B			
Firm-A	12	2	25	-10
	16	3	4	10
	-2	-1	26	0
	14	-4	8	6