

FIRST YEAR, FIRST SEMESTER EXAMINATION IN AGRICULTURE  
(JUNE 2003)

AEC 1101: INTRODUCTORY MICROECONOMICS

Answer ALL questions. Equal marks given to each question.

Answer in English only.

Time allowed: 02 hours.

01. a) What is meant by **Price Elasticity of Demand**?

b) You are given the following information on the **Income Elasticity of Demand (IED)** for two goods. **A & B.**

<u>Good</u>	<u>IED</u>
A	- 2
B	+ 2

i) Which is a **Normal good** & which is an **Inferior good**?

ii) Give possible examples of each good & explain why you have chosen these Goods?

c) Following data show the details about the market for mangoes.

<u>Price</u> (Rs. per kilo)	<u>Amount demanded</u> per week ('000 kilos)	<u>Amount supplied</u> per week ('000 kilos)
40	100	260
35	120	240
30	140	220
25	160	200
20	180	180
15	200	160
10	220	140

i) Using the above information draw the graphs of the **Supply & Demand** curves for mangoes. Label these as **S & D** respectively.

ii) What would be the **Equilibrium Price** & why?

- iii) Suppose that the supply schedule above represents the Long Run situation & that demand for mangoes doubles at each price. What would be the demand per week & Equilibrium Price in the Long Run?

02. a) What is a "Production Possibility Curve"(PPC)?

b) i). Draw the 'PPC' from the data given below.

Possibilities	Units of food	Units of cloth
A	0	8.0
B	1	7.5
C	2	6.5
D	3	5.0
E	4	3.0
F	5	0.0

ii) Briefly explain the term "Opportunity Cost" based on the graph?

iii) On the same graph indicate point 'U' referring to 3 units of food & 3 units of cloth & point 'H' referring to 3.5 units of food & 6 units of cloth.

iv) What do points 'U' & 'H' indicate?

v) How can the product combination 'H' be achieved?

03. a) Differentiate between 'Cardinal Utility' & 'Ordinal Utility'.

b) What does the Law of Marginal Utility say?

c) List the characteristics of Indifference Curves.

d) You are given the following information.

Price of good X = Rs 100/=

Price of good Y = Rs 500/=

Income of a particular person = Rs 2000/=

Using the above information, answer the following questions.

- Find out the maximum amount of good X this person can buy?
- Find out the maximum amount of good Y this person can buy?
- Draw the Budget Line for these two goods X & Y.

04.a) What does the **Production Function** for a commodity show?

b) You are given the following information about the output of a **good Y**, as successive workers are added (employed) to a fixed amount of land and capital equipment.

Number of workers	Total Output (Units of Y)
0	0
1	4
2	10
3	18
4	24
5	28
6	30
7	30
8	29

Answer the following questions.

1. Calculate the **Average Product (AP)** and **Marginal Product (MP)**.
2. Plot them on a clearly labelled graph.
3. At what level of employment does **diminishing returns** set in?
4. Indicate clearly the "**Stages of Production**" on this graph.
5. In which "**Stage**" does a rational producer operate? Why?

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