## BIRLA INSTITUTE OF TECHNOLOGY, MESRA, RANCHI (MID SEMESTER EXAMINATION MO/2024)

CLASS: IMSc SEMESTER: I BRANCH: **QEDS** SESSION: MO/2024

SUBJECT: ED24105 INTRODUCTION TO ECONOMICS WITH ESSENTIAL MATHEMATICS

TIME: 02 Hours **FULL MARKS: 25** 

## **INSTRUCTIONS:**

- 1. The question paper contains 5 questions each of 5 marks and total 25 marks.
- 2. Attempt all questions.
- 3. The missing data, if any, may be assumed suitably.
- 4. Tables/Data handbook/Graph paper etc., if applicable, will be supplied to the candidates

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Q.1 Imagine a country that produces only 2 commodities, guns and butter using one common resource labour. Total labour units available is 200 units. To produce 1 unit of gun you need 10 units of labour and to produce 1 unit of butter you need 5 units of labour.

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[2+1+2]

- a. Draw a production possibilities frontier for guns and butter and explain why it is shaped like what you have drawn.
- b. Show a point that is not feasible for the economy to achieve and a point that is feasible but inefficient and say why for each.
- c. Imagine that a global peace treaty has been signed and no country will need to go to war in next 5 years. As a result, this country reduces their desired production of guns. Draw and explain how will it affect the production of butter?
- Q.2 a. If you are the Foreign policy maker, would you encourage more FPI or more FDI inflow into India keeping in mind the employment concerns of the people here? Explain and differentiate the two.

3 [3+2]

- b. What would be the correct measure of growth rate of a country?
- Q.3 Take an example of your own and explain a negative production externality and [2.5+2.5] a positive consumption externality. (also say why externality is considered a market failure).

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Q.4 a. Popeye's income declines, and as a result, he buys more spinach. Is spinach an inferior or a normal good? Draw and explain what happens to Popeye's demand curve for spinach?

[2.5+2.5]

- b. Ketchup is put on hot dogs as a condiment. If the price of hot dogs rises, what happens to the market demand for ketchup? For tomatoes? For orange juice? (for each case say why)
- Q.5 You have the following information about good X and good Y:

[5] 5

- Income elasticity of demand for good X: -3
- Cross-price elasticity of demand for good X with respect to the price of good Y: 2

Would an increase in income and a decrease in the price of good Y unambiguously decrease the demand for good X? Why or why not?

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