

JADAVPUR UNIVERSITY
BACHELOR OF ARTS EXAMINATION, 2018
(2nd Year, 3rd Semester)
ECONOMICS (Honours)

General Equilibrium and Welfare Economics

Time :Two hours.

Full Marks :30

The figures in the margin indicate full marks.

Answer any **two** questions.

1. Consider a two sector production economy with full employment of capital and labour under CRS and perfect competition. How would relative supply of goods respond to (a) changes in the relative commodity prices, and (b) changes in relative factor endowments? Explain your results in terms of the Stolper –Samuelson and the Rybczynski theorems. (15)

2. Suppose each consumer $i(=1,2)$ has Cobb-Douglas utility function $U_i(x_{1i}, x_{2i}) = x_{1i}^\alpha \cdot x_{2i}^{1-\alpha}$, and the given prices of the goods are P_1 and P_2 . Suppose the endowments of the two goods possessed by the two consumers are $W_1 = (W_{11}, W_{12})$ and $W_2 = (W_{21}, W_{22})$ respectively.

(a) Find each consumer's demand function for each good and solve for market clearing prices.

(b) What is the significance of Walras' Law in this context? (10+5)

3.(a) What conditions guarantee the existence of Competitive (Walrasian) equilibrium prices in a competitive market environment ?

(b) Explain the significance of Gross Substitutability assumption in ensuring uniqueness of Competitive equilibrium.

(c) Show that all Competitive equilibrium allocations are Pareto efficient.

(5+5+5)

4.(a) What are the principal characteristics of a pure public good?

(b) How would you determine the optimum provision of public good? Explain clearly the underlying assumptions.

(c) What forms of tax-cum-subsidy would you recommend for financing the optimum supply of public good ? (5+5+5)

5.(a) What is a Social Indifference Curve ?

(b) What are its properties ?

(c) If gainers could suitably compensate the losers, show that some trade is better than no trade. (2+8+5)
