

BACHELOR OF ARTS EXAMINATION, 2017

(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.(a) Consider a two sector production economy with full employment of capital and labour under CRS and perfect competition, where each product is also used as intermediate input in the production of the other good ($a_{ij}>0$). Derive the Rybczynski theorem under appropriate assumption of factor intensity ranking of the two sectors, and show the magnification effect.

(b) Will the Stolper –Samuelson theorem hold good under the same conditions? Give reasons. (10+5)

2(a) 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 $W_1 = (1,2)$ and $W_2 = (2,1)$ respectively.

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?

(c) Show that all Competitive equilibrium allocations are Pareto efficient. (7+3+5)

3 (a) Explain how the presence of wage differentials between sectors leads to non-attainment of Pareto optimal allocation.

(b) What form of state intervention is required to attain Pareto efficiency in this case?

(c) Is Free trade necessarily better than No trade in the presence of wage differential between sectors? Argue your case. (5+5+5)

4.(a) Explain clearly the set of conditions that guarantee the existence of general equilibrium in a competitive market environment.

(b) What assumption ensures uniqueness of such equilibrium?

(c) What is condition for such equilibrium to be stable? (5+5+5)

5. Write short notes on any **two** of the following: (7.5+7.5)

(a) Hawkins-Simon Condition

(b) Scitovsky Paradox

(c) Production Externality

(d) Factor Intensity Reversal
