



# UNIVERSITY OF KELANIYA – SRI LANKA

## Centre for Distance and Continuing Education

### FACULTY OF COMMERCE & MANAGEMENT STUDIES

Bachelor of Commerce (Special) Degree First Year Examination (External) – 2014

June/ July 2019

### BCOM E1025 – Microeconomics

**No. of questions: Six (06)**

**Time: 03 hours**

**Answer any five (05) questions.**

#### Question No. 01

a). “Scarcity is the central argument of all kinds of economics problems” Do you agree with this statement? Explain your answer.

(05 Marks)

b). i). Why is “what to produce” a common problem in every economy?

(05 Marks)

ii). How does the price mechanism solve this problem in a free enterprise economy?

(05 Marks)

c). Distinguish between microeconomics and macroeconomics?

(05 Marks)

(Total 20 Marks)

#### Question No. 02

a). Suppose the following demand and supply functions of a commodity of a hypothetical economy are given, which is being produced under perfect competition conditions. Find out the equilibrium price and quantity.

$$Q^d = 7000 - 20p$$

$$Q^s = 250 + 25p$$

(05 Marks)

b). Why does control of prices of some commodities by the government become inevitable?  
(05 Marks)

c). i). Explain the difference between cardinal approach and ordinal approach of utility.  
(05 Marks)

ii). Describe the properties of an indifference curve.

(05 Marks)  
(Total 20 Marks)

### Question No. 03

a). Explain determinants of the price elasticity of demand.

(05 Marks)

b). Suppose a demand schedule is given as follows:

Price (Rs)	150	120	90	60	30	0
Quantity	150	300	450	600	750	900

i). Find the elasticity for the fall in price from 150 to Rs.120.

ii). Calculate the elasticity for the increase in price from Rs.90 to Rs.120

(05 Marks)

c). Would you expect the cross-elasticity coefficients between each of the following sets of products to be positive or negative? Explain.

i). Personal computers and software

ii). Coffee and tea

iii). Aluminum and steel

iv). Tennis rackets and tennis ball

(2.5 Marks for each)

(Total 20 Marks)

**Question No. 04**

a). i). What are the arguments against profit maximization as the objective of a business firm?

(06 Marks)

ii). Explain the meaning and, distinguish between the AFC and MC.

(05 Marks)

b). i). Explain the difference between economic cost and accounting cost.

(05 Marks)

ii). What is meant by market structures?

(04 Marks)

(Total 20 Marks)

**Question No. 05**

a). “Under perfect competition, the seller is only the price taker not the price maker”. Explain this statement.

(06 Marks)

b). “Monopolistic competition is the middle ground between perfect competition and monopoly”. Do you agree with this statement? Give reasons in support of your answer.

(06 Marks)

c). i). Explain the characteristics of oligopoly market.

(04 Marks)

ii). What is product differentiations?

(04 Marks)

(Total 20 Marks)

**Question No. 06**

Write the short notes of the following

- a). Public goods
- b). Short run and long run
- c). Diminishing marginal return
- d). Isoquant curves.
- e). Firm’s expansion path

(04 Marks for each)

(Total 20 Marks)