



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) – 2015

August 2020

BCOME 1025 – Microeconomics

No. of Questions: Six (06)

Time : Three Hours (03)

Answer any five (05) questions.

Question No. 01

“Scarcity is fundamentally the most important concept in economics, upon which all of the rest of the discipline”.

a). Do you agree with this statement? Give reasons for your answer.

(05 Marks)

b). Explain **the** difference between **Microeconomics** and **Macroeconomics**.

(05 Marks)

c). How does a production function serve, a useful purpose in **the** production analysis?

(05 Marks)

d). What are the properties of **an** isoquant curve? Explain your answer with appropriate diagrams.

(05 Marks)

(Total 20 Marks)

Question No. 02

“The demand curve is a graphical representation of the relationship between the price of a good or service and the quantity demanded, for a given period of time”.

a). Explain why demand curve slope downwards to the right?

(04 Marks)

b). Briefly list and explain on the factors that will be affecting the demand for the following products in the next several years.

- i). Film and camera
- ii). Fax machine
- iii). Laptop computers
- iv). Hotel rooms

(03 marks for each)

c). Suppose demand function is given as $Q_d = 60,000 - 10,000p$ and a supply function is given as $Q_s = 30,000p$.

Calculate equilibrium price and quantity.

(04 Marks)

(Total 20 Marks)

Question No. 03

a). i). "An indifference curve indicates different combinations of two goods that give the consumer equal satisfaction and utility". Explain the main properties of an indifference curve for two normal goods.

(05 Marks)

ii). "It is generally **believed** that income tax of a certain amount imposes a lower welfare cost on the tax **payer** than excise duty or sales tax of the same amount". Do you agree with this statement? Explain your answer.

(05 Marks)

b). Suppose a demand schedule is given as follow;

Price(Rs)	10	8	6	4	2
Quantity	50	100	150	200	250

i). Find the elasticity for the fall in price from **Rs. 8 to 6**.

ii). Calculate the elasticity for the increase in price from **Rs. 6 to 8**.

(04 Marks)

c). Would you expect the cross elasticity coefficients between each of the following pairs of products to be positive or negative? Describe why.

i). Personal computers and software

ii). Electricity and natural gas.

(06 Marks)

(Total 20 Marks)

Question No. 04

Production theory explains the principles in which the business has to take decisions on how much of each commodity that business, manufactures and sells.

- a). Usually due to economies of scale, it is sometimes more cost effective for a firm to operate a large plant at less maximum efficiency than a small plant at maximum efficiency". Do you agree with this statement? Explain your answer.

(05 Marks)

- b). Explain the relationship between a firm's short run production function and long run production function.

(05 Marks)

- c). i). Explain the main characteristics of a perfectly competitive market that cause buyers and sellers to be price takers?

(05 Marks)

- ii). The demand and cost function for a company are estimated as follows:

$$P = 200 - 8Q$$

$$TC = 100 + 90Q - 10Q^2 + 0.7Q^3$$

What price should the company charge if it wants to maximize its profit in the short run.

(05 Marks)

(Total 20 marks)

Question No. 05

- a). Compare monopoly and perfect competition **markets** with regard to the following;

i). Price determination

ii). Out put

(05 Marks)

- b). i). What is meant by dead weight loss?

(03 Marks)

ii). Why does dead weight loss arise only under monopoly and not under perfect competition.

(04 Marks)

c). i). “Monopolistic competition is the middle ground between perfect competition and monopoly”. Explain this statement.

(04 Marks)

ii). What are the characteristics of oligopoly.

(04 Marks)

(Total 20 Marks)

Question No. 06

Write short notes on following;

- a). Marginal cost
- b). Diminishing marginal return
- c). Indifference curve analysis.
- d). Consumer’s surplus
- e). Substitute goods.

(05 marks each)

(Total 20 Marks)