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) – 2016

May 2022

BCOM E1025 – Microeconomics

No. of questions: Six (06) **Time: 03 hours**

Answer any five questions.

Question No 01

a). Explain difference between macro- economics and micro-economics.

(05 Marks)

b). "Scarcity is the central perception of all kinds of economic problems". Do you agree with this statement? Give reasons for your statement?

(05 Marks)

c). Which of the following statements are true or false?

i). Market mechanism can solve all economic problems.

ii). Production possibilities frontier can shift upwards without an increase in resources.

iii). Opportunity cost equals cost of production

iv). Decrease in input prices causes a leftward shift in the supply curve

v). The income-effect on demand for an inferior good is negative.

(10 Marks)
(Total 20 Marks)

Question No 02

a). What is the difference between an increase in demand and an increase in the quantity demand?

(05 Marks)

b). List the basic non price determinants of supply and explain how each affects the supply curve.

(05 Marks)

c). Given that the demand function is represented by P= 100-5Q, and the supply function is represented by P= 40 + 10Q (Where P is price and Q is quantity), find the equilibrium priceand quantity.

(04 Marks)

d). Using supply and demand diagrams, show the effect of the following events on the market for sweatshirts

i). The price of leather jackets falls

ii). An India damages the cotton crop due to bad weather condition.

iii). New weaving machines are invented

(06 Marks)
(Total 20 Marks)

Question No 03

a). Explain the effects of maximum price control with the help of a diagram.

(05 Marks).

b). "The price elasticity of demand is defined as the degree of responsiveness of demand for acommodity to the change in its price".

i). Explain the difference between arc and point elasticity of a demand for a commodity?

ii). Suppose a demand schedule is given as follows;

Price (Rs.)	5	10	15	20
Quantity	10	20	30	40

Find the elasticity using point and arc elasticity for the fall in price from Rs.15 to Rs.10.

(05 Marks)

c). Explain determinants of price elasticity of demand.

(05 Marks)

d). Explain following concepts

i). Cross-elasticity and income-elasticity

ii). Price elasticity of supply

(05 Marks)
(Total 20 Marks)

Question No 04

a). How is an oligopoly market different from monopoly market in respect of price and output determination?

(05 Marks)

b). What is the importance of product differentiation in monopolistic competition?

(05 Marks)

c). Monopolistic competition will usually result in normal profits for the firms in an industry in long run. Describe three factors which might change this result.

(05 Marks)

d). Explain why advertising tends not to exist in pure competition and pure monopoly, while often existing in oligopolies

(05 Marks)
(Total 20 Marks)

Question No 05

a). Describe the difference between short-run and long-run equilibrium of a firm under perfect competition.

(05 Marks)

b). "Monopolistic competition is the middle ground between perfect competition and monopoly". Explain the statement.

(05 Marks)

c). "In a perfectly competitive industry, a firm is in equilibrium in the short-run only when its AC=AR=MR=MC". Discuss

(05 Marks)

d). "Since a monopoly firm enjoys an absolute power to produce and sell commodity somepeople believe that the government should break up a monopoly into many perfectly competitive firms". Discuss this statement.

(05 Marks)
(Total 20 Marks)

Question No 06

a). "An indifference curve can be defined as the locus of the points each representing adifferent combination of two goods yielding the same utility or level of satisfaction".

i). What are the main properties of an indifference curve for two normal goods?

(05 Marks)

ii). How is the ordinary utility concept different from cardinal utility concept?

(05 Marks)

b). Explain the difference between the following cost concepts.

i). Explicit and implicit cost

ii). Opportunity cost and implicit costs

iii). ISO Quants curve and ISO Cost

(10 Marks)

(Total 20 Marks)