



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) – 2019

April 2023

BCOM E1025 – Microeconomics

No. of questions: Six (06)

Time: 03 hours

Answer only five (05) questions.

Question No. 01.

Economics is the study of how people allocate scarce resources for production, distribution, and consumption, both individually and collectively.

- a). Express scarcity and opportunity cost? What role do these two concepts play in the making of business decisions?
(07 Marks)
- b). “Origin of the economics lies endless human wants and scarcity of resources”. Discuss this statement.
(05 Marks)
- c). Do you agree with the following statement? Give reasons for your answer.
 - i). Market mechanism can solve all economic problems in the society.
 - ii). Opportunity cost equals to cost of production.
 - iii). Production possibilities frontiers can move upwards without raise in resources.
 - iv). Government is a central element of modern economies.
(08 Marks)

(Total 20 Marks)

Question No. 02.

Demand curve shows the relationship between the price of a good or service and the quantity demanded within a specified time frame.

- a). Explain difference between the movement along the demand curve and shift of the demand curve.

(05 Marks)

b). Explain how a consumer's demand change of a commodity, due to a change of his income and price of substitute goods.

(05 Marks)

c). Explain why market equilibrium is determined at the intersection of the demand and supply curves.

(05 Marks)

d). i). Calculate equilibrium quantity and price from the following demand function and supply function.

$$Q_d = 100 - 15p$$

$$Q_s = 100p$$

(03 Marks)

ii). What is the change in price of demand function if $Q_d = 100 - 15p$ changes to $Q_d = 150 - 15p$, when supply function remaining the same?

(02 Marks)

(Total 20 Marks)

Question No. 03

a). Explain determinants of price elasticity of demand.

(05 Marks)

b). i) Would you expect to spend on food, in restaurants during present Economic crisis period in Sri Lanka?

ii). How would income elasticity of demand be able to explain these changes?

(07 Marks)

c). i). Describe concepts of arc elasticity and point elasticity of a demand for a commodity.

(04 Marks)

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

| | | | | | |
|-------------|-----|-----|-----|-----|-----|
| Price (Rs.) | 300 | 280 | 260 | 240 | 220 |
| Quantity | 100 | 200 | 300 | 400 | 500 |

- Find the elasticity for the fall in price from Rs.260 to Rs.240.

- Calculate the elasticity for the increase in price from Rs.280 to Rs.300.

(04 Marks)

(Total 20 Marks)

Question No. 04

- a). i). Distinguish between the cardinal and ordinal measures of utility.
ii). What are the problems in cardinal measurement of utility?
(06 Marks)
- b). "An inferior good is one whose consumption decrease, when income of the consumer increase". Do you agree this statement? Explain your answer.
(05 Marks)
- c). i). Explain the difference between iso-cost and iso-quant curves.
(04 Marks)
- ii). How does a production function serve a useful purpose in production analysis?
(05 Marks)

(Total 20 Marks)

Question No. 05

- a). Distinguish between the following cost concepts.
i). Average total cost and Marginal cost
ii). Average fixed cost and Average variable cost
iii). Private cost and social cost.
(06 Marks)
- b). A leather producing company has the following variable cost function:
$$TVC=500Q-10Q^3 + 0.35Q^4$$

If the company's fixed cost is equal to Rs.550,000, find out:
i). Total cost function
ii). Marginal cost function
iii). Average variable cost function
(06 Marks)
- c). i). Explain short-run equilibrium and long-run equilibrium under perfect competition market.
(06 Marks)
- ii). Under what market conditions a firm is a price taker?
(02 Marks)

(Total 20 Marks)

Question No. 06

- a). i). How is pricing under monopoly is different from that under perfect competition.
ii). "Monopoly firm price is always higher than the competitive price". Discuss.

(08 Marks)

- b). i). What are the characteristics of monopolistic competition?

- ii). "Monopolistic competition is the middle ground between perfect competition and monopoly". Do you agree? Explain.

(08 Marks)

- c). What are the key characteristics of oligopoly market?

(04 Marks)

(Total 20 Marks)

