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) – 2021

October 2023

BCOM E1025 – Microeconomics

No. of questions: Seven (07) **Time: 03 hours**

Answer any five (05) questions.

Question No. 01.

a). "Microeconomics is the study of the behavior of individual components of the economy". Explain this statement using the difference between microeconomics and macroeconomics.

(05 Marks)

b). Explain following concepts.

i). Production- possibility frontier

ii). Economic scarcity

(06 Marks)

c). i). "Government is an important element of modern economy". Do you agree? Explain your answer.

(04 Marks)

ii). How does market mechanism work to solve the basic problems in a free market economy?

(05 Marks)

(Total 20 Marks)

Question No. 02.

a). The following details are related to product X.

Demand equation : Qd =300-3p

Supply equation : Qs = -100+ 2p

Calculate

i). The quantity demanded and quantity supplied at the price Rs. 50

ii). Equilibrium price and quantity

(06 Marks)

b). i). What are the main determinants of the demand for goods?

ii). Explain the difference between the change in demand and the change in quantity demand?

(07 Marks)

c). i). What factors cause a rightward shift in the supply curve of agriculture product?

ii). "The income-effect on demand for an inferior good is negative". Discuss.

(07 Marks)

(Total 20 Marks)

Question No. 03.

a). i). Describe and graphically illustrate the five categories of demand elasticity.

(05 Marks)

ii). Why do we always insert a negative sign in front of demand elasticity?

(05 Marks)

b). i). Explain the concepts of arc elasticity and point elasticities of a demand for a commodity.

(05 Marks)

ii). Consider the demand for product X. At price Rs. 6, the quantity demanded for the goods is 30 units. Suppose the price of X increases to Rs.8.00 and as a result, the quantity demanded for the good falls to 20 units. Calculate the price elasticity and explain your answer.

(05 Marks)

(Total 20 Marks)

Question No. 04.

a). i). Explain the concept of ordinal utility.

(05 Marks)

ii). Describe how is the cardinal utility concept different from the ordinal utility concept.

(05 Marks)

b). i). Explain how the a long-run production function differ from the short-run production function.

(05 Marks)

ii). Explain the difference between iso-costs and iso-quants using examples.

(05 Marks)

(Total 20 Marks)

Question No. 05.

a). i). Explain graphically the relationship between the short run marginal cost and short run average marginal cost.

(05 Marks)

ii). Alfa Ltd has the following variable cost function:

$$TVC=100Q-20Q^3 + 0.80Q^2$$

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)

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

(04 Marks)

ii). "Profit maximization happens where marginal cost equal to marginal revenue". Discuss.

(05 Marks)

(Total 20 Marks)

Question No. 06.

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

(05 Marks)

ii). "A firm is a price- taker under perfect competition market". Discuss

(05 Marks)

b). i). "Monopolistic competition is the middle ground between perfect competition and monopoly". Discuss.

(05 Market)

ii). Explain the equilibrium of a monopoly firm in the short run.

(05 Marks)

(Total 20 Marks)

Question No. 07.

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

(05 Marks)

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

(05 Marks)

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

i). Explicit and implicit cost

ii). Marginal Cost and Average cost

iii). Cross elasticity and Income elasticity

iv). Consumer surplus and producer surplus

(10 Marks)

(Total 20 Marks)