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) – 2022

April 2024

BCOM E1025 – Microeconomics

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

Answer any five (05) Questions.

Question No. 01

a). Explain the concept of a price ceiling and its effects on the market.

(05 Marks)

b). Consider the following supply and demand functions for a particular product.

Qs = 70,000p

Qd= 250,000-18,000p

   i). What is the equilibrium price and output level?

   ii). Calculate the excess demand or excess supply when the price is set at Rs.3.

(06 Marks)

c).

   i). If the price of laptops decreases, what will likely happen to the demand curve for tablets? Explain.

   ii). How does a technological advancement in the manufacturing process impact the supply?

   iii). Explain how expectations of future prices could affect the demand curve for smartphones.

(09 Marks)
(Total 20 Marks)

Question No. 02

a). Imagine you are a manager at a company that produces smartphones. How would you use the concept of price elasticity of demand to make decisions about pricing strategies for your products?

(05 Marks)

b).

i). The price of smartphones has increased by 10%, and as a result, the quantity demanded has decreased by 15%. Calculate the price elasticity of demand for smartphones.

ii). The price of gasoline increases by 25%, resulting in a 20% decrease in the quantity demanded. At the same time, the price of electric cars decreases by 15%, leading to a 30% increase in the quantity demanded. Which product has a more elastic demand: gasoline or electric cars?

(08 Marks)

c).

i). Suppose you are a manager at a fast-food restaurant chain. How would you assess the cross-elasticity of demand between your products and those of a nearby competitor?

ii). The price of coffee increases from RS.500 to Rs.600 per Kg, and as a result, the quantity demanded of tea increases from 200 kg to 250kg. Calculate the cross elasticity of demand between coffee and tea.

(07 Marks)

(Total 20 Marks)

Question No. 03

a). Explain the difference between the concepts of cardinal utility and ordinal utility.

(06 Marks)

b). Describe the concept of the law of diminishing marginal utility using an appropriate graph.

(06 Marks)

c).

i). Define an indifference curve and explain its characteristics.

ii). Describe the relationship between indifference curves and the concept of marginal rate of substitution (MRS).

(08 Marks)
(Total 20 Marks)

Question No. 04

a).

   i). Explain the difference between short-run and long-run production functions.

   ii). Explain the concepts of total product, marginal product, and average product in relation to the production theory.

(07 Marks)

b). Star company produces leather shoes. It incurs a fixed cost of Rs.100,000. Its variable cost function is given as:

$$TC = 20Q - 10Q^3 + Q^4$$

Derive the following cost functions.

   i).   Total Cost (TC) function
   ii). Marginal cost (MC) function
   iii). Average total cost (ATC) function

(06 Marks)

c).

   i). Explain the concept of marginal cost (MC) and marginal revenue (MR).

   ii). How does a firm determine its profit-maximizing level of output using these concepts? Explain.

(07 Marks)
(Total 20 Marks)

Question No. 05

a). Discuss the key characteristics of perfect competition and provide real-world examples to illustrate your points.

(10 Marks)

b). "Changes in technology and international trade affect the competitiveness of industries". Explain this statement.

(05 Marks)

c). Discuss the role of government regulation in addressing market failures associated with monopoly power.

(05 Marks)
(Total 20 Marks)

Question No. 06

a). Compare and contrast the key characteristics of monopolistic competition and oligopoly, including the number of firms, product differentiation, barriers to entry, and pricing behaviour.

(08 Marks)

b). "Firms in monopolistic competition differentiate their products and engage in non-price competition". Discuss this statement.

(06 Marks)

c). Describe the profit-maximizing behaviour of a monopolist compared to a perfectly competitive firm.

(06 Marks)
(Total 20 Marks)