University of Kelaniya – Sri Lanka

External Examinations Branch

Bachelor of Commerce (Special) Degree First Examination (External)- 2010
December 2011/ January 2012

Faculty of Commerce and Management

BCOME 1025 – Microeconomics

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

Answer any five (05) questions.

(01).

a) "Scarcity of resources is the origin of all economic problems". Discuss.

(12 Marks)

b) "Human wants continue to increase without meeting their end". Do you agree with the statement? Explain with reasons.

(08 Marks)
(Total 20 Marks)

(02).

a) "The law of demand cannot be applied for all the time". Discuss the validity of this statement.

(06 Marks)

b) What are the important determinants of the market demand for the following commodities?

i). Tea

ii). Petrol

(04 Marks)

c) Consider the following demand and supply functions of a commodity.

d)

$$Demand\ function: P = \frac{(Qd - 40)}{-6}$$

$$Supply\ Function: \ P = \frac{Qs}{4}$$

i). Find the equilibrium price and quantity.

ii). Determine whether there is an excess demand or excess supply at price of Rs. 5.00.

(10 Marks)

(Total 20 Marks)

(03).

a) What are the uses of the concepts of elasticities in economic analysis? Explain.

(08 Marks)

b) How is the point elasticity on a curvilinear demand curve measured? Explain by using graphs.

(04 Marks)

c) Demand for a commodity is given by, $Qd = 500 - 15P$. The commodity is initially priced at Rs. 25.

i). Calculate the point elasticity of demand.

ii). Should the price be increased or decreased in order to increase the total revenue of the commodity? Explain.

(08 Marks)
(Total 20 Marks)

(04).

a) Distinguish between the 'Marginal Utility Approach' and the 'Indifference Curves Approach'.

(05 Marks)

b) Consider the following marginal utility schedule of a consumer of buying two commodities, A and B.

Quantity demanded	1	2	3	4	5	6	7	8	**Total**
Marginal utility of A	11	10	9	8	7	6	5	4	**60**
Marginal utility of B	19	17	15	13	12	10	8	6	**100**

If price of A and B are Rs. 1 and the money income is Rs.8.00,

i). Explain how this consumer should spend his total money income on both commodities in order to maximize his total utility.

ii). What is the total utility received by the consumer, when he is in the equilibrium.

(10 Marks)

c) Explain why indifference curves cannot intersect each other.

(05 Marks)
(Total 20 Marks)

(05).

a) What is a production function? Distinguish between the short-run production function and long-run production function.

b) You are given the following Total Cost (TC) function of a firm as follows.

$$TC = 100 + 12Q - Q^2 + 0.05Q^3$$

Find the followings.

i). Total Fixed Cost (TFC) and Total Variable Cost (TVC) functions.

ii). Average Fixed Cost (AFC) and Average Variable Cost (AVC) functions.

iii). Marginal Cost (MC) function.

iv). The level of output at which the AVC minimizes.

(15 Marks)
(Total 20 Marks)

(06).

a) "A perfectly competitive firm is a price taker". Explain.

(06 Marks)

b) What are the profit maximizing conditions of a perfectly competitive firm in the short-run?

(04 Marks)

c) A perfectly competitive firm sells its product for Rs. 10 per unit. The total cost (TC) function of the firm is as follows.

$$TC = 1000 + 2Q + 0.01Q^2$$

i). Find the profit maximizing output level of the firm.

ii). Calculate the total profit of the firm.

(10 Marks)
(Total 20 Marks)

(07). Write short-notes on followings.

a) Income elasticity of demand

b) Iso-quants

c) The law of diminishing returns

d) Monopoly

(05 Marks each)
(Total 20 Marks)