University of Kelaniya – Sri Lanka

External Examinations Branch

Faculty of Commerce and Management

Bachelor of Commerce (Special) Degree First Examination – (External) 2009
October/ November 2010

BCOME 1025 – Microeconomics

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

Answer any five (05) questions.

Graph papers are provided.

1) (a). Distinguish between microeconomics and macroeconomics.

(05 Marks)

(b). Explain how the price mechanism works to solve the basic problems in a free market economy.

(07 Marks)

(c). "Economics has both positive and normative aspects". Discuss this statement with examples.

(08 Marks)
(Total 20 Marks)

2) (a). Distinguish between the following.
   (i).   Individual demand and Market demand
   (ii).   Short-run demand and Long-run demand

(06 Marks)

(b). Explain how a decrease in the price of a substitute and a complementary affect the demand for a commodity.

(04 Marks)

(c). You are given the following price and supply functions.
   Price function: $P = 2.5 - 0.1Q_d$

   Supply function: $Qs = 25P$

   (i).   Derive the demand function.
   (ii). Find the equilibrium price and quantity.
   (iii). Determine whether there is an excess demand or supply at prices Rs. 1.50 and Rs. 3.50.
   (iv). Suppose the equilibrium price increases by 50%, what would happen to the equilibrium quantity?

(10 Marks)
(Total 20 Marks)

3) (a). State whether the following statements are True or False.
   (i). Price elasticity of demand measures the slope of the demand curve.
   (ii). The greater the cross-elasticity, the closer the substitutes.
   (iii). Income elasticity for luxury goods are always greater than 1.
   (iv). If $e_p = 1$, the total revenue increases with increase in price.

   (04 marks)

   (b). Draw separate hypothetical demand curves to present the following degrees of elasticity of demand.
   (i). Ed = 0   (ii). Ed = α (iii). Ed = 1   (iv). Ed > 1   (v). Ed < 1

   (05 Marks)

   (c). Explain the relationship between the price elasticity of demand and total revenue of a commodity.

   (05 Marks)

   (d). Explain the cross elasticity of demand and income elasticity of demand.

   (06 Marks)

   (Total 20 Marks)

4) (a). Distinguish between the Marginal utility approach and Indifference curves approach.

   (04 Marks)

   (b). Briefly explain the main characteristics of indifference curves.

   (08 Marks)

   (c). Explain separately how a consumer will be in equilibrium under marginal utility approach and indifference curves approach.

   (08 Marks)

   (Total 20 Marks)

5) (a). Distinguish the following concepts.
   (i). Long-run production function and Short-run production function

   (ii). Internal economies of scale and External economies of scale

   (06 Marks)

   (b). Explain and illustrate the Law of diminishing returns.

   (06 Marks)

   (c). You are given the following production schedule.

Labour	1	2	3	4	5	6	7	8	9	10	11	12
Total Production (TP)	5	11	18	26	35	45	55	64	70	75	72	60

i). Derive the Average Product (AP) and Marginal Product (MP) schedules.

ii). Draw TP in one set of axis and AP and MP in another set of axis.

iii). Mark the stages of production.

(08 Marks)
(Total 20 Marks)

6) (a). Briefly explain the five main characteristics of Perfect Competition.

(10 Marks)

(b). A perfect competitive firm has estimated its demand and total cost (TC) functions as follows.

$$P = 100 - 0.01Q$$

$$TC = 50Q + 30,000$$

(i).   Derive the profit function.
(ii). Find the profit maximizing output level of the firm.
(iii). Find the total profit of the firm.

(10 Marks)
(Total 20 Marks)

7) Write short notes on following.
(a). Opportunity cost

(b). Basic economic problems

(c). Stages of production

(d). Monopoly

(05 Marks each)
(Total 20 Marks)