UNIVERSITY OF KELANIYA – SRI LANKA

Centre for Open and Distance Learning

FACULTY OF COMMERCE & MANAGEMENT STUDIES

achelor of Commerce (Special) Degree First Year Examination (External) – 2011

August/September 2013

Year I

BCOM E1025 – Microeconomics

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

Answer any five (05) questions.

(01).

a) Explain the difference between microeconomics and macroeconomics.

(05 Marks)

b) Explain why all economic entities have to make choices regarding the use of their resources and spending their earnings.

(15 Marks)

(Total 20 Marks)

(02).

a) Explain with reasons why the demand curve slopes downward to the right.

(06 Marks)

b) Explain how an increase in consumer income and the price of substitute goods affects the demand for a commodity. (04 Marks)

c) Suppose a market consists of three consumers as A, B and C for its product and their individual demand curves are as follows.

A: $P = 35 - 0.5Q$

B: $P = 50 - 0.25Q$

C: $P = 40 - 2Q$

The supply equation is given by $Qs = 40 + 3P$.

i. Determine the equilibrium price and the quantity of the market.

ii. Determine the amount that will be purchased by each individual.

(10 Marks)

(Total 20 Marks)

(03).

a) What are the uses of the concept of elasticity in economic analysis? Explain.

(06 Marks)

b) Briefly explain the determinants of price elasticity of demand. (06 Marks)

c) Demand for a commodity is given by, $Qd = 600 - 20P$. The commodity is initially priced at Rs. 20.

   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) How does a rational consumer decide to distribute his income over various commodities which he purchases? Explain using the marginal utility approach.

(05 Marks)

b) Explain the main characteristics of an indifference curve.

(08 Marks)

c) Explain how a consumer becomes the equilibrium under indifference curve approach.

(07 Marks)

(Total 20 Marks)

(05).

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

(04 Marks)

b) Complete the following table.

Quantity of variable input	**Total Product (TP)**	**Average product (AP)**	**Marginal Product (MP)**
0	0	0	……
1	3	……	……
2	……	4	……
3	……	……	4
4	15	…….	…….
5	……	…….	2
6	……	2.28	……

(06 Marks)

c) The total variable cost (TVC) function of a firm is as follows.
$TVC = 0.15Q + 0.1Q^2$

The fixed costs in each production period are Rs. 25,000.

   i. Derive the marginal cost function.

   ii. What output would minimize the firm's average cost?

(10 marks)

(Total 20 Marks)

(06).

a) "A perfectly competitive firm faces a horizontal demand curve". Do you agree with the statement? 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) Cross elasticity of demand
b) Iso-quant curves
c) Economies of scale
d) Monopoly

(05 Marks each)
(Total 20 Marks)