



University of Kelaniya – Sri Lanka

Centre for Distance & Continuing Education

**Bachelor of Arts (General) Degree Second Examination (External) - 2012
March - May 2015**

Faculty of Social Sciences

Microeconomics - ECON- E2015

Answer only four (04) questions

No. of questions : 10

Time : 03 Hours

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01. i. What do you mean by the utility function? (05 marks)
ii. Explain the assumptions of 'Marginal utility theory of consumer behavior'? (07 marks)
iii. Describe how demand curve of a commodity is derived in the marginal utility theory. (08 marks)
02. i. Define the indifference curve and explain the characteristics of indifference curves of a rational consumer? (08 marks)
ii. 'Indifference curve analysis is said to be an advance step of consumer behaviour theory compared to the marginal utility theory.' Do you agree? Explain. (12 marks)
03. i. Define the "income consumption curve" and derive the 'Engle curve' associate with the income consumption curve. (10 marks)
ii. Explain the "income effect" and "substitution effect" of a price change of a commodity with appropriate examples. (10-marks)
04. i. Describe the difference between short-run production function and long-run production function. (07 marks)
ii. Explain the "Law of variable proportions." Illustrate it graphically. (07 marks)
iii. Explain the "Law of returns to scale". (06 marks)
05. i. Define the "ISO- product curve." (06 marks)
ii. What are the characteristics of Iso- product curves of a rational producer? (06 marks)
iii. Derive the equilibrium conditions of a rational producer based on the isoquant analysis. (08 marks)

06. i. Describe the Total Fixed Cost (TFC), Total Variable Cost (TVC) and Total Cost (TC) of production and graph them in a same diagram. (10 marks)
- ii. Explain whether the following statements are true or false:
- a) If the owner of a business pays himself no salary, then the accounting cost is zero, but the economic cost is positive. (05 marks)
- b) if a firm hires a currently unemployed worker, the opportunity cost of utilizing the worker's services is zero. (05 marks)
07. i. Monopolist is said to be a 'price maker' while perfectly competitive firm is said to be a 'price taker'. Explain these two conditions based on the theoretical reasoning. (08 marks)
- ii. What do you mean by 'Price discrimination'? Explain. (07 marks)
- iii. Why perfectly competitive firm cannot practice this selling strategy? (05 marks)
08. i. Explain the assumptions of monopolistic competition. (05 marks)
- ii. Why the shape of the demand curve of a monopolistic firm is highly elastic? (05 marks)
- iii. Describe the long- run equilibrium of a monopolistic firm with aid of graphs. (10 marks)
09. i. Explain the assumptions of Oligopoly market model. (05 marks)
- ii. What is the distinction between interdependence and rivalry in Oligopoly? (07 marks)
- iii. Is advertising good or bad for consumers and for the economy? Why? (08 marks)
10. Compare and contrast the following concepts.
- i. Positive economics and Normative economics. (06 marks)
- ii. Microeconomics and Macroeconomics. (07 marks)
- iii. Explosive oscillations and Damped oscillations. (07 marks)
