



UNIVERSITY OF KELANIYA – SRI LANKA

Centre for Distance and Continuing Education

Faculty of Commerce & Management Studies

Bachelor of Commerce (Honours) Degree First Year Examination (External) – 2024

April - 2026

BCOM 18025 – Microeconomics

No. of questions: Seven (07)

Time: 03 hours

Answer any five (05) Questions.

Question No. 01

- a) Define economics and explain its nature as a social science. (04 Marks)
- b) Explain the concept of scarcity and discuss why it is considered the fundamental economic problem in any society. (04 Marks)
- c) What is opportunity cost? Illustrate with a real-world example how it influences economic decision -making. (06 Marks)
- d) Distinguish between microeconomics and macroeconomics with suitable examples. (06 Marks)
- (Total 20 Marks)**

Question No. 02

- a) Explain the law of demand and the law of supply. Illustrate each with relevant examples. (04 Marks)
- b) The demand and supply functions for a product are given as.

$$Q_d = 100 - 5P$$
$$Q_s = 20 + 3P$$

Find the equilibrium price and equilibrium quantity.

(04 Marks)

- c) Suppose the government imposes a tax of Rs. 2 per unit, modifying the supply function to:

$$Q_s = 20 + 3(P - 2)$$

- i. Find the new equilibrium price and quantity. (04 Marks)
- ii. Calculate the tax burden on consumers and producers. (04 Marks)

- d) Using the original demand function, calculate the price elasticity of demand when the price changes from Rs. 10 to Rs. 12 (Use the arc elasticity method).

(04 Marks)

(Total 20 Marks)

Question No. 03

- a) Define utility and distinguish between total utility and marginal utility.

(04 Marks)

- b) The following table shows the total utility (TU) a consumer receives from consuming different units of a good.

Unit consumed	Total utility
1	10
2	18
3	24
4	28
5	30

- i. Calculate marginal utility for each unit
ii. Using the data, draw the total utility and marginal utility curves.

(04 Marks)

- c) What is consumer equilibrium? Explain the conditions for consumer equilibrium in the case of:

- i. One good
ii. Two goods using the equi-marginal principle.

(04 Marks)

- d) Explain the main characteristics of indifference curves and describe how they are used to analyze consumer behavior, using examples.

(08 Marks)

(Total 20 Marks)

Question No. 04

- a) Explain the theory of production, including the relationship between inputs and output.

(05 Marks)

- b) Describe why isoquant curves cannot intersect, using a practical example.

(05 Marks)

- c) Distinguish between short-run and long-run production.

(05 Marks)

- d) Explain how the firms apply the theory of production in making operational decisions.

(05 Marks)

(Total 20 Marks)

Question No. 05

- a) i. Distinguish between fixed costs and variable costs in production.
(05 Marks)
- ii. "A firm notices that producing one extra unit increases total cost from Rs. 10,000 to Rs. 10,300". Define marginal cost and explain its importance in determining the optimal level of production.
(05 Marks)
- b) i. Discuss whether monopoly is always harmful to economic welfare, using real-world examples.
(05 Marks)
- ii. Explain how a monopolist determines the profit-maximizing level of output and price.
(05 Marks)
- (Total 20 Marks)**

Question No. 06

- a) Define a perfectly competitive market and briefly explain its main characteristics.
(06 Marks)
- b) A firm in a perfectly competitive market faces the following conditions:
Market price (P) = Rs. 50
Total cost function: $TC = 100 + 10Q + Q^2$
- i. Derive the Marginal Cost (MC) function.
ii. Determine profit-maximizing level of output.
iii. Calculate total revenue (TR) at this output level.
iv. Find total profit of the firm
(08 Marks)
- c) "Perfect competition leads to maximum efficiency in the economy." Critically evaluate this statement.
(06 Marks)
- (Total 20 Marks)**

Question No. 07

- a) Explain monopolistic competition, giving two real-world examples. (04 Marks)
- b) Explain why monopolistic competition is considered less efficient than perfect competition. (05 Marks)
- c) Compare monopolistic competition and oligopoly with respect to the following characteristics:
- Number of firms
 - Type of products offered
 - Barriers to entry
- (06 Marks)
- d) Explain how interdependence among firms influences decision-making in an oligopoly. (05 Marks)
- (Total 20 Marks)**