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University of Kelaniya - Sri Lanka

Centre for Distance and Continuing Education

Faculty of Commerce & Management Studies

Bachelor of Business Management (General) Degree First Examination (External) – 2024

April/ May - 2026

BMGT 18065 - Business Economics

Time: 03 hours

Instructions:

- This paper consists of three parts: Part A, Part B and Part C.
- Part A contains 10 multiple-choice questions that are compulsory, and the answers should be written on the given booklet.
- Part B and Part C contain eight (8) Essay-Type questions.
- Answer only **four (04)** questions by selecting at least two (02) questions from part B and selecting at least one (01) question from part C.
- Using mobile phones, smart computers, or any other digital device is not allowed.
- Calculators are allowed.
- Total 100 marks.

PART A

1. Which of the following best illustrates a macroeconomic stabilization policy?
 - a) A firm reducing its production cost
 - b) Government increasing interest rates to control inflation
 - c) A consumer maximizing utility
 - d) A firm choosing optimal output

2. Which statement correctly distinguishes microeconomics from macroeconomics?
- a) Microeconomics studies aggregates; macroeconomics studies individuals
 - b) Microeconomics focuses on price levels; macroeconomics focuses on firms
 - c) Microeconomics studies individual behavior; macroeconomics studies aggregates
 - d) There is no difference
3. Given Demand is : $Q_d = 150 - 5P$ and supply is $Q_s = 30 + 5P$.Equilibrium price is:
- a) 10
 - b) 12
 - c) 15
 - d) 20
4. Cross elasticity between tea and coffee is +1.5. This implies:
- a) They are complements
 - b) They are substitutes
 - c) They are inferior goods
 - d) They are unrelated
5. A consumer moves along a convex indifference curve from left to right. Which of the following correctly explains the change in Marginal Rate of Substitution (MRS)?
- a) MRS increases because the consumer prefers more of both goods
 - b) MRS decreases because the consumer is willing to give up less of Y for additional X
 - c) MRS remains constant along the curve
 - d) MRS becomes zero

6. A firm increases labor input while keeping capital fixed. At some point, total output increases at a decreasing rate. This illustrates:
- Increasing returns to scale
 - Constant returns to scale
 - Diminishing marginal returns
 - Negative marginal returns
7. In the long run, perfectly competitive firms:
- Earn positive economic profit
 - Earn zero economic profit
 - Become price makers
 - Face downward sloping demand
8. Monopoly demand: $P = 120 - 2Q$ and Cost: $TC = 20Q + 80$
Profit-maximizing output and price are:
- $Q = 25, P = 70$
 - $Q = 30, P = 60$
 - $Q = 20, P = 80$
 - $Q = 15, P = 90$
9. Given :C (Consumption)= $400 + 0.8Y$ and I(Investment) = 600, Equilibrium national income is:
- 3000
 - 4000
 - 5000
 - 6000
-
10. The IS curve shows combinations of interest rate and income where:
- Money market is in equilibrium
 - Goods market is in equilibrium
 - Labor market is in equilibrium
 - Inflation is stable

(02 * 10 = Total Marks 20)

PART B

Question No. 01

- a) Briefly explain the current global economic changes that adversely affect the long-term economic growth of Sri Lanka. Discuss how these changes influence business economic decisions of firms, particularly in cost management, demand forecasting, and strategic planning.

(06 marks)

- b) The demand and supply functions for a product in a competitive market are given as follows:

$$Q_d = 200 - 5P$$

$$Q_s = 40 + 3P$$

Calculate the equilibrium price and equilibrium quantity for this product.

(04 marks)

- c) "Compare and contrast the economic systems that operate under capitalist, socialist, and mixed economies. In your answer, explain how the role of the government, the pricing mechanism, consumer sovereignty, and the objectives of marketing differ across these economic systems. Support your discussion with relevant examples."

(10 marks)

(Total: 20 marks)

Question No.02

- a) “Using the Production Possibility Curve (PPC) as an analytical framework, critically illustrate and explain the fundamental economic concepts, including scarcity, choice and opportunity cost.
- (06 marks)
- b) Calculate price elasticity of demand when price changes from Rs.200 to Rs.250 and quantity demanded decreases from 1000 to 800.
- (04 marks)
- c) Calculate the Income Elasticity of Demand when consumer income increases from Rs. 50,000 to Rs. 60,000 and the quantity demanded of a good increases from 400 units to 520 units.
- (04 marks)
- d) “Elasticity is a fundamental concept in economics that measures the degree of responsiveness of one variable to changes in another. In demand analysis, it plays a crucial role in understanding how consumers react to price changes”. Critically examine the key determinants of the Price Elasticity of Demand.

(06 marks)

(Total: 20 marks)

Question No. 03

- a) Explain, with clear reasoning, how the Cardinal Utility Theory and Ordinal Utility Theory differ in their approach to analysing consumer satisfaction and decision-making.
- (06 marks)
- b) Using the indifference curve and budget line framework under ordinal utility theory, explain how a rational consumer achieves equilibrium in the consumption of two goods

(08 marks)

c) Briefly explain the characteristics of **Iso - Quant Curve**.

(06 marks)

(Total: 20 marks)

Question No. 04

a) A small bakery produces cakes using flour, ovens, and labour. In the short run, the number of ovens is fixed, but the bakery can hire more workers to increase production. Using diagrams,

- i) explain how total output of cakes changes as the number of workers increases.
- ii) Identify the zones of increasing, diminishing, and negative returns
- iii) Highlight the optimal number of workers for maximum efficient production.

(08 marks)

b) The table below shows an incomplete set of short-run cost data for a firm. Fill in the missing values labelled **(i) to (vii)**.

Quantity	TFC	AFC	TVC	AVC	TC	ATC	MC
0	30		0				
1			20				(vi)
2			35	(iii)	(iv)	(v)	
3			60				
4	(i)		85				
5		(ii)	115				(vii)
6			150				

Abbreviations:

- **TFC:** Total Fixed Cost
- **AFC:** Average Fixed Cost
- **TVC:** Total Variable Cost
- **AVC:** Average Variable Cost
- **TC:** Total Cost

- **ATC:** Average Total Cost
- **MC:** Marginal Cost

(07 marks)

- c) What are the factors that affect the determination of the shape of the long run average cost curves?

(05 marks)

(Total 20 marks)

Question No. 05

- a) Describe the key characteristics of a monopoly market structure, including the nature of products, number of sellers, entry barriers, price-setting power, and availability of substitutes. Provide suitable examples from real markets.

(05 marks)

- b) Explain how a perfectly competitive firm achieves profit maximization in both the short run and the long run. In your answer, use separate diagrams for the short run and long run.

(05 marks)

- c) A monopoly firm faces the following demand and cost functions:

$$P = 400 - 8Q$$

$$TC = 5Q^2 + 80Q$$

- Find the profit-maximizing output and price
- Calculate the profit

(05 marks)

- d) Compare and contrast the demand curve faced by a firm under perfect competition with that under monopoly. Explain why the slope and elasticity differ between these market structures. Use diagrams to support your answer.

(05 marks)

(Total 20 marks)

PART C

Question No. 06

- a) Explain the scope and significance of macroeconomics in understanding the functioning of an economy. Discuss how key macroeconomic indicators such as national income, price levels, and employment levels can be used to assess the performance of an economy. Provide examples with reference to the Sri Lankan context.

(10 marks)

- b) “Macroeconomic objectives are closely linked to the different phases of the economic cycle.” Discuss how key macroeconomic objectives, such as economic growth, price stability, full employment, and balance of payments stability, are affected during the phases of the economic cycle: expansion, peak, recession, and trough. In your answer, analyze how these changes influence business performance and decision-making across each phase.

(10 marks)

(Total 20 marks)

Question No. 07

- a) Identify and explain three key reasons why measuring national income is important for an economy.

(06 marks)

- b) Using appropriate economic reasoning and a clearly labelled diagram, explain how the circular flow of income operates in a three-sector economy

(06 marks)

- c) Following are the details pertaining to hypothetical Economy for year 2025:

Consumption= $50+0.8Y_d$

Investments= 100

Tax= $20+0.2Y$

Government Expenditure= 250

Calculate the nominal Gross Domestic Product (National Income) from the given information.

(08 marks)

(Total 20 marks)

Question No. 08

a) *"There is an interdependency between goods and service market and money market."* Do you agree with this statement? Give reasons.

(06 marks)

b) Explain what will happen to the equilibrium interest rate and national income by using IS – LM curves,

(i) the government relax monetary policies

(ii) increases in government expenditure.

(06 marks)

c) "Over the past several years, the Sri Lankan population's structure age wise has witnessed a significant change and the policy-makers will be really worried about the rapid aging of the country's population since this will weigh heavily on the country's economy. Although the ageing population has some adverse effects on the economy there is a positive side also". Explain the concept of unemployment and current trends of unemployment

(08 marks)

(Total 20 marks)