

Index Number :



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) – 2019

April - 2023

**BMGT E 1035 - Business Economics**

Time: 03 hours

**Instructions:**

- This paper consists of three parts: Part A, Part B and Part C.
- Part A contains 20 multiple choice questions that are compulsory, and the answers should be written on the paper itself. Taking the Part I paper out of the examination hall is strictly prohibited.
- Part B and Part C contains six (6) 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.
- Calculator are allowed.
- Total 100 marks.

## PART A

1. The difference between microeconomics and macroeconomics is:
  - a) microeconomics studies the effects of government taxes on the national unemployment rate.
  - b) macroeconomics studies the effects of government regulation and taxes on the price of individual goods and services whereas microeconomics does not.
  - c) microeconomics studies the entire economy but macroeconomics studies an individual firm.
  - d) microeconomics studies decisions of individual people and firms and macroeconomics studies the entire national economy.
  
2. After you graduate, you have decided to accept position working at the leading apparel company for Rs.35,000 per month. The two other offers you received were working for a supermarket for Rs.28,000 and working for an audit firm for Rs.32,000. What is the opportunity cost of accepting the position at the apparel company?
  - a) The Rs.32,000 you have been paid working for an audit firm and the Rs.28,000 you would have been paid working for a supermarket.
  - b) The Rs.28,000 you would have been paid working for a supermarket.
  - c) The Rs.35,000 you are paid for working at the apparel company.
  - d) The Rs.32,000 you would have been paid working for an audit firm.
  
3. A consumer with a given income will maximize their utility when:
  - a) the marginal utilities derived from each commodity consumed are proportional to their prices.
  - b) the marginal utility derived from each product consumed is zero.
  - c) the marginal utility derived from each commodity is equal.
  - d) the total utility derived from each commodity consumed is equal.

4. If the supply function in a market is  $Q_s = -10 + 10P$  and the demand function is  $Q_d = 18 - 4P$ , and the government puts in a price floor at Rs.3, what will the result be?
- No effect.
  - Shortage of 14 units.
  - Surplus of 14 units.
  - Surplus of 10 units.
5. An increase in the price of a product will reduce the amount of it purchased because:
- supply curves are upsloping.
  - the higher price means that real incomes have risen.
  - consumers will substitute other products for the one whose price has risen.
  - consumers substitute relatively high-priced product for relatively low-priced products.
6. Which of the following statements about the relationship between the price elasticity of demand and revenue is **TRUE**?
- If demand of price inelastic, then increasing price will decrease revenue
  - If demand of price elastic, then decreasing price will increase revenue.
  - If demand of price inelastic, then decreasing price will increase revenue.
  - If demand of price elastic, then increasing price will increase revenue.
7. Total production will be maximum when
- marginal production is maximum
  - average production is maximum
  - marginal production is zero
  - average production is equal to marginal production

8. Which one of the following statements is **TRUE**?
- a) If the marginal cost is greater than the average cost the average cost falls
  - b) If the marginal cost is greater than the average cost the average cost increases
  - c) If the marginal cost is positive total costs are maximized
  - d) If the marginal cost is negative total costs increase at a decreasing rate if output increases
9. A firm produces 200 units and the total cost of production is Rs.4000. When they increase output to 220, the cost rises to Rs.4200. When the firm produces zero output, the cost is Rs.1000. What is the variable cost per unit when they produce 200 units?
- a) Rs.3200
  - b) Rs.15
  - c) Rs.16
  - d) Rs.10
10. In the case of a perfectly competitive firm, the
- a) firm's marginal revenue exceeds the price of the product.
  - b) change in the firm's total revenue equals the price of the product multiplied by the change in quantity sold.
  - c) firm's marginal revenue is less than average revenue.
  - d) price of the product falls sharply when the quantity the firm sells doubles.
11. A perfectly competitive firm should reduce output or shut down in the short run if price is equal to marginal cost and price is
- a) greater than average total cost.
  - b) less than average total cost.
  - c) greater than average variable cost.
  - d) less than average variable cost.

12. Which of the following statements is **correct**?
- a) The market demand and the firm's demand are the same for a monopoly.
  - b) Monopolies have perfectly inelastic demand for the product sold.
  - c) Monopolies are guaranteed to earn an economic profit.
  - d) Monopoly not reduce economic welfare.
13. Which of the following statement differentiate perfect competition from monopolistic competition?
- a) Firms in monopolistic competition compete on their product's price as well as its quality and marketing.
  - b) In monopolistic competition, entry into the industry is unblocked.
  - c) Perfect competition has a large number of independently acting sellers.
  - d) Only firms in monopolistic competition can earn an economic profit in the short run
14. For a four sector or open economy the condition for equilibrium is:
- a)  $Savings + taxes + Imports = Investment + govt, expenditure + exports$
  - b)  $Total Leakages = Total Injections$
  - c)  $Aggregate output = Aggregate Expenditure$
  - d) All of these
15. The error which arises in national income estimation if we add up the total output of all the sectors in the economy, instead of adding up the output of final goods and services only is known as;
- a) Income error
  - b) Double counting error
  - c) Counting error
  - d) Estimation error

16. The equilibrium of the IS curve and the LM curve determines:
- a) The price level and the inflation rate
  - b) The interest rate and the price level
  - c) Investment and the money supply
  - d) The interest rate and the level of output
17. In the IS–LM model, a decrease in the interest rate would be the result of a/ an:
- a) increase in the money supply
  - b) increase in government purchases
  - c) decrease in taxes
  - d) increase in money demand
18. Structural unemployment,
- a) is due to changes in the structure of the economy that result in a significant loss of jobs in certain industries.
  - b) occurs during recessions.
  - c) is due to the normal working of the labor market.
  - d) results when people become discouraged about their chances of finding a job so they stop looking for work.
19. According to the Phillips curve, as unemployment falls:
- a) Inflation decreases
  - b) Inflation remains unchanged
  - c) Inflation increases
  - d) Output falls
20. When too many funds are hunting down too few goods, the probable result of inflation is recognized as \_\_\_\_\_.
- a) Deflation
  - b) Cost-push inflation
  - c) Built in inflation
  - d) Demand-pull inflation

**(01 x 20 = Total marks 20)**

## PART B

### Question No. 01

- a) "Microeconomic and macroeconomics help to understand and predict the market conditions with high reliability while reducing the uncertainty and risk." with reference to the above statement briefly explain how business economics contribute to managerial decision making process.

(08 marks)

- b) Illustrate following situations by using production possibility curve.

- (i) Increase utilization of resources.
- (ii) Government signed new trade agreements with developed countries.
- (iii) Due to natural calamities cut down Rs. 50 million worth tea plants.

(06 Marks)

- c) What are the justifiable reasons of the interference of government in free trade economy.

(06 marks)

**(Total 20 Marks)**

### Question No. 02

- a) Why does the demand curve slope downwards?

(02 marks)

- b) Differentiate the changes in quantity supply from changes in supply.

(04 marks)

- c) Suppose that the demand and supply for milk can be represented by the following equations:

$$Q_d = 100 - 6P$$

$$Q_s = 28 + 3P$$

Where P is the price per Liter of milk, and Q represents the number of milk liters in thousand (,000) per month.

- i. Calculate the equilibrium price and quantity of milk.  
(02 marks)
  - ii. To help dairy farmers, the government sets a minimum price of Rs.10 per Liter of milk. What is the new quantity of milk sold in the marketplace?  
(02 marks)
  - iii. Suppose that the government supports to purchase of any excess milk in the market which is unable to sell to consumers at Rs.10 per Liter. Calculate the government expenditure to buy excess milk.  
(02 marks)
- d) Explain the effect of the following scenarios related to the laptop market equilibrium price and quantity by using suitable diagrams.
- i. Increase in the cost of raw materials used in the production of laptops.
  - ii. Decrease the software prices.
  - iii. Decrease the average income due to an economic downturn.
  - iv. Increase the online learning due to COVID-19 pandemic.
- (4 x 02 marks)  
**(Total 20 marks)**

### Question No. 03

- a) What does mean by the equi-marginal utility?  
(06 marks)
  - b) "In the start run of production at least one of the inputs should be fixed and if the firm wants to increase output it can only do by increasing the quantity of the variable factors of production." Referring this statements highlight the best zone for the production in the short run by using appropriate graphs.  
(08 marks)
  - c) Differentiate return to scale from economies of scale.  
(06 marks)
- (Total 20 Marks)**



**Question No. 04**

- a) What are the necessary assumptions to be a perfect competitive market. Highlight the importance of each and every assumption.

(06 marks)

- b) The demand function faced by a monopolist for a product is given by

$$P = 400 - 8Q$$

The firm's total cost function is given by,

$$TC = 50 + 2Q^2$$

- (i) Determine the profit maximizing output level and price of the firm.

- (ii) What is the profit at that level of output.

(08 marks)

- c) What are the special characteristics that can be seen in the oligopoly market structure. How it differ from monopolistic competitive market.

(06 marks)

**(Total 20 Marks)**

**PART C**

**Question No. 05**

- a) Briefly explain how to avoid double counting in calculating GDP.

(04 marks)

- b) Find the Gross Domestic Product at market price ( $GDP_{MP}$ ) and Gross National Product at market price ( $GNP_{MP}$ ) from the following data using the income method. Show that it is the same as that obtained by expenditure method.

Item	Value (Rs. Million)
Personal consumption	7,314
Depreciation	800
Wages	6,508
Net indirect taxes	1,000
Interest	1,060
Investment	1,442
Government expenditure	2,196
Rental income	34
Cooperate profit	682
Exports	1,346
Net factor income abroad	40
Mixed-income	806
Imports	1,408

(10 marks)

- c) Describe the reasons for unemployment and provide solutions to reduce the unemployment level in Sri Lanka.

(06 marks)

**(Total 20 marks)**

**Question No. 06**

- a) You are given the following information of a hypothetical economy. (All the values are in rupees million)

$$C = 250 + 0.75 yd \text{ (Consumption)}$$

$$I = 300 - 25r \text{ (Investment)}$$

$$G = 200 \text{ (Government expenditure)}$$

$$T = 200 \text{ (Taxed)}$$

$$md = Y - 100 r \text{ (money demand)}$$

$$ms = 500 \text{ (money supply)}$$

- i) Find out the equilibrium income ( $y$ ) and interest rate ( $r$ )
- ii) Find out the level of consumption, Investment,  $mt$  and  $msp$  when the economy is in equilibrium.

(08 marks)

b) Using the IS - Lm model examine the impact of followings on economy.

- i) Government decision to increase money supply.
- ii) Huge demand for consumption.

(06 marks)

c) "Sri Lanka's annual inflation climbed to 69.8% in September of 2022." Describe what causes have contributed to the current highest inflation rate in Sri Lanka.

(06 marks)

**(Total 20 Marks)**