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) – 2021

October - 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 A paper out of the examination hall is strictly prohibited.

- Part B and Part C contain six (6) Essay-Type questions.

- Answer only **four (04)** questions from Part B and Part C by selecting at least two (02) questions from Part B and 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) Microeconomics focuses on ....

    a)   Issues such as economics growth, inflation and unemployment.

    b)   The working of the whole economy.

    c)   Factors that affect the total demand for goods and services.

    d)   The behavior of individuals and organizations towards scarce resources.

2) Malsha is thinking about going to the movies tonight. A ticket costs Rs.300 and she will have to cancel her tutoring job that pays Rs.500. The opportunity cost of seeing the movie is:

    a)   Rs.300

    b)   Rs.500

    c)   Rs.800

    d)   Rs.800 minus the benefit of seeing the movie

3) Let Qd stand for the quantity demanded, Qs stand for the quantity supplied, and P stands for the price. If $Qd = 20 - 2P$ and $Qs = 5 + 3P$, then the equilibrium quantity is

    a)   20 units

    b)   5 units

    c)   14 units

    d)   3 units

4) Which of the following will not cause the demand for product A to change?

    a)   a change in the price of close-substitute product B.

    b)   an increase in consumer incomes.

    c)   a change in the price of A.

    d)   a change in consumer tastes.

5) Hasini's income has just risen from Rs.950 per week to Rs.1050 per week. As a result, she decides to increase the number of movies she attends each month by 5%. Her income demand elasticity for movie is

a) inelastic.

b) elastic.

c) represented by a vertical line.

d) represented by a horizontal line.

6) A 10% increase in income causes the quantity of orange juice demanded to increase from 19,200 to 20,800 liters. The income elasticity of demand for orange juice is

a) 0.8

b) 1.2

c) 1.0

d) 0.5

7) The indifference curve means:

a) Equal consumption of two goods.

b) Equal utility from the consumption of two combiations of goods.

c) Equal consumer income.

d) Equal prices of the goods consumed.

8) Which of the following defines marginal utility?

a) The change in total utility divided by the price of a product.

b) The maximum amount of satisfaction from consuming a product.

c) The total satisfaction received from consuming as much of the product that is available for consumption.

d) The additional satisfaction received from consuming one more unit of a product.

9) A firm is producing 1000 units at a total cost of Rs.5000. If it were to increase production to 1001 units, its total cost would rise to Rs.5008. What does this information tell you about the firm?

a) Marginal cost is Rs.5 and average variable cost is Rs.8.

b) Marginal cost is Rs.8 and average variable cost is Rs.5.

c) Marginal cost is Rs.5 and average total cost is Rs.8.

d) Marginal cost is Rs.8 and average total cost is Rs.5.

10) If one firm in a perfectly competitive market increases its level of output, market supply

a) will increase and market price will fall.

b) will increase and market price will rise.

c) and market price will both remain constant.

d) will decrease and market price will rise.

11) A perfectly competitive firm should reduce output or shut down in the short run if the 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 is different between perfect competition and 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.

13) A monopolist has cost function TC = 10 + 2Q. Demand in this market is given by the equation Q = 14 – P. If this monopolist can charge only a single price, its profit in the short run will be:

a) -8

b) 10

c) 26

d) 34

14) A particular economy has exports worth Rs. 40 billion and imports worth Rs. 175 billion, consumer spending adds up to Rs 2343 billion, gross investment is Rs. 379 billion and government expenditure Rs. 865 billion. This means that GDP equals,

a) Rs. 3722 billion.

b) Rs.3452 billion.

c) Rs.3802 billion.

d) cannot calculate GDP due to inadequate figures.

15) Gross National Product at market price is equal to,

a) Gross Domestic Product at market price + Net factor income from abroad

b) Gross Domestic Product at market price - Net factor income from abroad

c) Gross Domestic Product at market price – Export

d) Gross Domestic Product at market price + Import

16) In the IS-LM model, a decrease in output would be the result of a(n)..................:

a) decrease in taxes.

b) increase in the money supply.

c) increase in money demand.

d) increase in government purchases.

17) A reduction in government spending will cause.

    a)   An upward shift in the LM curve.

    b)   A leftward shift in the IS curve.

    c)   A downward shift in the LM curve.

    d)   A rightward shift in the IS curve.

18) Unemployment appears when employers need time to find out on talent available and job seekers need time to find out the openings is referred as?

    a)   Seasonal unemployment.

    b)   Cyclical unemployment.

    c)   Frictional unemployment.

    d)   Structural unemployment.

19) Demand-pull inflation may be caused by:

    a)   An increase in costs.

    b)   A reduction in interest rates.

    c)   A reduction in government spending.

    d)   A reduction in aggregate supply.

20) According to the Phillips curve, as unemployment falls:

    a)   Inflation decreases.

    b)   Inflation remains unchanged.

    c)   Inflation increases.

    d)   Output falls.

(01 x 20 = Total marks 20)

PART B

Question No. 01

a) *"One cannot really implement macroeconomics principles without simultaneously implementing microeconomics principles."*

With reference to the above statement, explain briefly how business economics theories can be applied to solve operational issues of firms and managerial decision making.

(07 marks)

b) Use proper diagrams to explain the effect of each of the following on the equilibrium price and quantity in the market for newspapers.

   i. Increase the cost of raw materials to produce the newspapers.

   ii. People are getting news from online and digital sources.

(06 marks)

c) The demand and supply functions of a product are given as follows.

$$Qd = 900 - 4P$$
$$Qs = 500 + 4P$$

   i. Determine the equilibrium price and the quantity. (02 marks)

   ii. Find the black-market price when the government decides a maximum price of Rs. 20 per unit. (02 marks)

d) The price elasticity of demand for Amazon pen drives is -0.4. If Amazon wants to sell 10% more pen drives, what should Amazon do to the price of pen drives?

(03 marks)

(Total 20 marks)

Question No. 02

a)   Explain how the consumer reaches equilibrium according to the Indifference curve analysis.

(05 marks)

b)   Calculate the utility-maximizing combination by using the following information.

Price of Commodity A is = Rs: 1

Price of Commodity B is = R: 2

Units	Mu(A)	Mu(B)
1	13	24
2	08	20
3	04	18
4	02	16
5	01	12

(05 marks)

c)   Use diagrams to explain how a demand curve for a product is derived using indifference curves and budget lines.

(10 marks)

(Total 20 marks)

Question No. 03

a)   "Production function describes the relationship between input and output. In the short run at least one of the inputs should be fixed and if the firm wants to increase output it can only do so by increasing the quantity of the variable factors of production". Use the diagrams to explain the effect on total output of an increase in the size of the labour force and highlight the best zone for the production.

(10 marks)

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b) Briefly explain why firms might experience economies of scale up to a particular level of output and then diseconomies of scale beyond that in the long run.

(05 marks)

c) A firm faces the following demand and total cost functions,

$$P = 400 - 3Q$$
$$TC = 50 + 2Q^2$$

   i. Compute the profit-maximizing output level and the price of the firm.

(03 marks)

   ii. Find the profit of this firm at the profit-maximizing point.

(02 marks)

(Total 20 marks)

Question No. 04

a) Derive the short-run supply curve of the firm which operates in a perfectly competitive market structure by using graphs.

(05 marks)

b) Product differentiation plays a key role in the monopolistic competitive market structure. Explain the reasons for this.

(05 marks)

c) *"The operations of monopoly firms have come under the criticisms in practical all capitalist countries and public opinion is generally in favor of control in the activities of these firms."* Does the operation of a monopoly firm reduce public welfare? Explain the answer by using graphs.

(10 marks)

(Total 20 marks)

PART C

Question No. 05

a) The table below shows some selected National Accounts statistics for economy ABC.

Item		Rs. million
Consumption expenditure		250
Gross Investment		60
Depreciation		40
Government expenditure		94
Imports	22	
Exports	20	
Transfer payments		40
Taxes		120

    (i)   What is the economy ABC's Gross Domestic Product (GDP) for the year?

    (ii)   Using the data in the above table, Calculate the net investment.

    (iii)   Using the data in the table, compute the amount of resource availability in the economy.

(06 marks)

b) Inflation is the major macroeconomic phenomena that usually create the greatest problems for the economy." Critically evaluate the above statement

(06 marks)

c) Describe the following types of unemployment.

    (i)   Cyclical unemployment

    (ii)   Structural unemployment

(08 marks)

(Total 20 marks)

Question No. 06

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

$$(06 \text{ marks})$$

b) Explain what will happen to the equilibrium interest rate and national income if,

   (i)   the government relax monitory policies

   (ii) increases in government expenditure. $\qquad$ (06 marks)

c) You are provided with the following information on a certain economy. (Values are in million rupees)

$C = 40 + 0.8yd$	(Consumption)
$T = 0.25y$	(Taxes)
$Tr = 10$	(Transfers)
$I = 400 - 20r$	(Investment)
$G = 450$	(Government Expenditure)
$Ms = 3500$	(Money Supply)
$P = 10$	(Price Level)
$Mt = 0.25y$	(Demand for transaction purpose)
$Msp = -30r$	(Demand for Speculative Purpose)

Calculate equilibrium level of National Income and Interest rate.

$$(08 \text{ marks})$$

$$\textbf{(Total 20 marks)}$$