

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) – 2022

April - 2024

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 contain 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.
- Calculators are allowed.
- Total 100 marks.

PART A

01. Which one of the following statements is NOT true?
- a) Scarcity applies to all economies.
 - b) The basic economic problem is one of the choices between alternatives.
 - c) Factors of production are limited in supply.
 - d) Choice is necessary because of limited consumer wants.

- ... a certain country, consumers had to wait in long queues to buy everyday items like bread. They did not have many choices and the government-controlled factories. What type of economy did they live in?
- a) traditional economy.
 - b) Command economy.
 - c) Free market economy
 - d) Mixed economy
03. When the government sets a price ceiling for a commodity, which of the following option is true about the statements?
- I. An increase in demand
 - II. An increase in Supply
 - III. A shortage of Goods
- a) I only
 - b) I and II only
 - c) I and III only
 - d) III only
04. $Q_d = 300 - 6p$ and $Q_s = 20 + 8p$ if the price of coconut is set at Rs. 15, the coconut market will experience,
- a) Equilibrium
 - b) Excess demand causing a rise in price.
 - c) Excess demand causing a fall in price.
 - d) Excess supply causing a rise in price.
05. Which of the following utility approaches suggests that utility is a measurable and quantifiable entity?
- a) None of these
 - b) Ordinal approach
 - c) Cardinal approach
 - d) Both cardinal & ordinal

06. The expansion path explains
- the least costly combination of inputs required to produce various levels of output.
 - the firm's demand curves for the inputs.
 - the various combinations of inputs that can be used to produce a given level of output.
 - All of the above.
07. A tangency point between an iso-quant and an iso-cost line identifies
- the least costly combination of inputs required to produce various levels of outputs.
 - the various levels of output that can be produced using a given level of input.
 - the various combinations of inputs that can be used to produce a given level of output.
 - the least costly combination of inputs required to produce a given level of output.
08. What is the production function?
- Technical relationship between physical inputs and physical outputs.
 - Relationship between fixed factors of production and variable factors of production.
 - Relationship between a factor of production and the utility created by it.
 - Relationship between quantity of output produced and time taken to produce the output.
09. In the short run, the firm's product curves show that
- TP begins to decrease when AP begins to decrease but continues to increase at a decreasing rate.
 - When MP is equal to AP, AP is decreasing but at its highest.
 - When the MP curves cuts the AP curve from below, the $AP=MP$.
 - In stage two, TP increases at a diminishing rate and reaches maximum at the end of this stage.

10. The “Law of Diminishing Returns” applies to,
- The short run, but not the long run.
 - The long run but not the short run.
 - Both the short run and long run.
 - Neither the short run nor the long run
11. Which describes a barrier to entry?
- anything that protects a firm from the arrival of new competitors.
 - a government regulation that bars a monopoly from earning an economic profit.
 - something that establishes a barrier to expanding output.
 - firms already in the market incurring economic losses so that no new firm wants to enter the market.
12. The golden rule of profit maximization states that, in order to maximize profit, the firm should produce the level of output at which,
- $TR = TC$
 - $TR - TC = 0$.
 - $MR = MC$
 - $AR = M$.
13. The demand curve becomes perfectly elastic of a firm in the perfect competition because,
- Homogeneous products are being sold in the market.
 - The supplier decides the price.
 - The supplier is a price taker.
 - Supplier does not receive sufficient amount of information.
14. Which of the following may be a gain to society from monopoly?
- Monopolies may be able to generate economies of scale.
 - Monopolies may earn an economic profit in the long run.
 - Monopolies may be able to price discriminate, thereby boosting consumer surplus.

15. Which of the following best describes an oligopoly?
- many monopolistically competitive firms.
 - a few firms sharing monopoly power.
 - a former monopoly that has been broken up by the government.
 - a government-granted franchise or monopoly.
16. Which of the following is NOT an issue in macroeconomics?
- issues relating to the balance of payment.
 - the determination of prices in the agricultural sector
 - the relationship between inflation and unemployment
 - the possible effect of budget deficit increases on the level of investment.
17. Expansionary Fiscal Policy will result,
- $G \uparrow \rightarrow AD \uparrow \rightarrow IS \text{ shift to left} \rightarrow Y \uparrow \rightarrow mt \uparrow \rightarrow msp \downarrow \rightarrow r \uparrow$
 - $G \uparrow \rightarrow AD \downarrow \rightarrow IS \text{ shift to right} \rightarrow Y \downarrow \rightarrow mt \downarrow \rightarrow msp \uparrow \rightarrow r \uparrow$
 - $G \uparrow \rightarrow AD \uparrow \rightarrow IS \text{ shift to right} \rightarrow Y \uparrow \rightarrow mt \uparrow \rightarrow msp \downarrow \rightarrow r \uparrow$
 - $G \uparrow \rightarrow AD \uparrow \rightarrow IS \text{ shift to right} \rightarrow Y \uparrow \rightarrow mt \downarrow \rightarrow msp \downarrow \rightarrow r \downarrow$
18. Disposable income is the net income available for spending by households,
- Before they receive transfers and pay taxes to the government
 - After they receive transfers and pay taxes to the government
 - After they receive transfers but before pay taxes to the government
 - Before they receive transfers but after pay taxes to the government
19. A reduction in government spending will cause.
- An upward shift in the LM curve.
 - A leftward shift in the IS curve.
 - A downward shift in the LM curve.
 - A rightward shift in the IS curve.

20. Select which source of employment is more appropriate when employers need time to find out on talent available and job seekers need time to find out the openings?
- a) Seasonal unemployment
 - b) Cyclical Unemployment
 - c) Frictional unemployment
 - d) Structural unemployment

(01 x 20 = Total marks 20)

PART B

Question No. 01

- a) In this turbulent economic environment How do microeconomics and macroeconomics complement each other in understanding economic phenomena?

(05 marks)

- b) Consider the following demand and supply curve for a certain product.

$$Q_S = 50000 P$$

$$Q_D = 130,000 - 15000 P$$

What is the equilibrium price and equilibrium quantity for the industry?

(02 marks)

- c) Income increases from Rs 1000 to 1200. Selling quantity of the organization increases from 5000 to 8000. Calculate the income elasticity for the commodity.

(03 marks)

- d) Explain what will happen to the demand curve for economics textbooks in response to the following changes.

- (i) an increase in student grants.
- (ii) an increase in rents in student residences.
- (iii) an increase in the numbers of students taking economics courses.
- (iv) a price war among bookshops that offers reductions on book prices.
- (v) the introduction of a fee for the use of university libraries.

(10 marks)

(Total 20 marks)

Question No. 02

- a) Provide an example illustrating the calculation of total utility and marginal utility in cardinal utility theory.

(06 marks)

b) Analyze graphically how consumer equilibrium is determined according to ordinal utility theory by using indifference curves and budget constraints. what conditions must be met for a consumer to be in equilibrium?

(08 marks)

c) Explain the characteristics of ISO – quant curve

(06 marks)

(Total 20 marks)

Question No. 03

a) Discuss the different types of costs encountered by firms, including explicit and implicit costs. Provide examples of each type of cost and explain their significance in production decisions.

(06 marks)

b) A monopoly firm faces the following demand and marginal cost functions.

$$P = 500 - 10Q$$

$$TC = 10Q^2 + 100Q$$

i) What is the profit maximizing price and quantity?

ii) Calculate the profit

(08 marks)

c) "In the short run at least one input should be fixed and to increase output have to raise variable inputs". Do you agree with the statement Explain how producer determine optimum profit maximizing range with relate to short run.

(06 marks)

(Total 20 marks)

Question No. 04

a) Compare the monopoly market characteristics with the perfect competitive market characteristics and the profit determination of two market structures in the short

(08 marks)

- b) “The social, political, or economic impediments that prevent other firms from entering the market in monopoly”. Do you agree with the statement? Briefly explain. (06 marks)
- c) Describe the strategies that monopolistic competitive firms employ in addition to price to increase their market share. (06 marks)
- (Total 20 marks)**

PART C

Question No. 05

- a) “According to complex Keynesian model there is an interdependency between goods and service market”. Do you agree with this statement. Justify your answer. (05 marks)
- b) What are the three motives of money demand? (05 marks)
- c) By using IS-LM model describe how the following incidents have affected the economy. (10 marks)
- i) Government decides to increase money supply.
 - ii) Huge demand for consumption
- (Total 20 marks)**

Question No. 06

- a) What is meant by national income? State three importance of measuring national income. (04 marks)

b) You are provided with the following information on a certain economy.

$$C = 50 + 0.8y \text{ (consumption)}$$

$$T_x = 50 + 0.2y \quad \text{(Tax function)}$$

$$I = 100 \quad \text{(Investment)}$$

$$G = 250 \quad \text{(Government expenditure)}$$

Calculate the equilibrium national income using the given information.

(04 marks)

(05

c) Discuss about the present situation and how it affects the Sri Lankan economy. Regarding the following subjects.

i) Inflation and Unemployment of Sri Lanka

ii) Economic Growth and Economic Development of Sri Lanka

(12 marks)

(Total 20 marks)