University of Kelaniya - Sri Lanka

Centre for Open and Distance Learning

Faculty of Commerce and Management Studies

Bachelor of Business Management (General) Degree

Year I Examination (External) – 2008

BMGT E 1035 / BMGT 13035 – Business Economics

No of questions – 08   Time: 03 Hours
Answer any five (5) questions

(01) a) Why is that a businessman should study an individual behaviour as well as the aggregate behaviour of an economy separately

(06 marks)

  b) The following information are given for a certain commodity.
$$Qs = -50 + 100P$$
$$Qd = 25 - 200P$$

  Calculate the equilibrium level of price and quantity.

(04 marks)

  c) If all soda advertisements were banned, how would Pepsi sales be affected? How about soda consumption.

(05 marks)

  d) Many states impose a state tax on gasoline in addition to the gasoline tax. What happens to state tax revenue, when the gasoline tax is raised?

(05 marks)
(Total 20 marks)

(02) a) Explain consumer's equilibrium with the help of indifference curve analysis. What are the conditions of consumer's equilibrium.

(05 marks)

  b) Why is Samuelson's revealed preference theory scientific as compared to utility theory and indifference curve analysis?

(05 marks)

  c) Explain substitution effect and income effect of a normal good.

(05 marks)

  d) Suppose the following table reflects the total satisfaction (utility) derived from eating pizza.

Quantity consumed	1	2	3	4	5	6	7
Total utility	47	92	122	135	137	120	70

(i) What is the marginal utility of each pizza?
(ii) What causes the marginal utility to diminish?

(05 marks)
(Total 20 marks)

(03) a) Explain the most suitable area for a rational producer who operates in the short run with the help of a diagram.

(06 marks)

b) Briefly explain the reasons why a firm unable to recover a part of its fixed cost if it will not cease production in the short run.

(05 marks)

c) Explain the concept of business shut down point of a producer with the help of a diagram.

(04 marks)

d) If the demand function of a firm is P = 500 - 0.2Q and the cost function is TC = 25Q + 10,000 compute the profit maximizing output and the price level of the firm.

(05 marks)
(Total 20 marks)

(04) a) Why would anyone want to enter a profitable industry knowing that profits would eventually be eliminated by competition.

(05 marks)

b) If the demand function of a perfectly competitive firm is P = 29 and the total cost function is
TC = 1/3 Q^3 - 5Q^2 + 28Q + 27

(i) Compute the profit maximizing output and the price level of the firm.
(ii) Calculate the total profit of the firm.

(08 marks)

c) How does a monopolist divide his output between two markets with different elasticities of demand for the purpose of price - discrimination.

(07 marks)
(Total 20 marks)

(05) a) Briefly explain the problems faced by an individual firm in deciding its equilibrium output under monopolistic competition.

(05 marks)

b) What is meant by the product differentiation.

(04 marks)

c) By using the graphs briefly explain how the total industry demand is divided among the cartel members.

(06 marks)

d) What are the criticisms directed against the price leadership model.

(05 marks)
(Total 20 marks)

(06)   a)   Explain how "Saving - investment equality" is established according to circular flow of income.

(04 marks)

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

$$C = 140 + 0.6yd \quad \text{(Consumption)}$$
$$Tx = 50 + 0.3y \quad \text{(Tax Function)}$$
$$Tr = 70 \quad \text{(Transfers)}$$
$$I = 300 \quad \text{(Investment)}$$
$$G = 250 \quad \text{(Government Expenditure)}$$
$$X = 420 \quad \text{(Exports)}$$
$$M = 120 + 0.25y \quad \text{(Imports)}$$

(i)   Calculate the equilibrium level of income and the expenditure multiplier for this model.

(08 marks)

(ii)   If government expenditure increases by 40% what would the effect be on equilibrium income?

(04 marks)

(iii)   Explain the relationship between Marginal Propensity to Consume (MPC) and Marginal Propensity to Savings (MPS)

(04 marks)
(Total 20 marks)

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

(05 marks)

b)   How is fiscal policy different from monetary policy? What are the objectives of fiscal policy in a developing economy like Sri Lanka.

(07 marks)

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

(i)   the government relax monitory policies
(ii)   increases in government expenditure.

(08 marks)
(Total 20 marks)

(08)   a)   Purpose a macro economic policy package for attaining full employment & price stability in the next decade in Sri Lanka.

(10 marks)

b)   "The trade off between inflation and unemployment is purely temporary". Do you agree with this statement. Explain reasons.

(10 marks)
(Total 20 marks)