



University of Kelaniya – Sri Lanka

External Examinations Branch

Faculty of Commerce and Management

Bachelor of Business Management (General) Degree First Examination – (External) 2009
October 2010

BMGT E 1035 – Business Economics

No. of Questions: 08

Time: 03 hours

(You are allowed to use calculators)

Answer three (03) questions, from part I and two questions (02) from part II . All together answer five (05) questions only.

Part - I

- (01) (a) "Business Economics helps managers in decision making and forward planning"
How business economics helps for decision making procedure of an organization.
(05 marks)
- (b) "Static analysis is as equally important as dynamic analysis to understand the relationships among economic variables" Explain with examples.
(05 marks)
- (c) The following equations are for supply (QS) and demand (QD) conditions for a commodity sold in a competitive market.

$$QD = 10 - P$$

$$QS = -2 + 2P$$

- (i) Draw the supply curve and the demand curve in a diagram and indicate the market equilibrium.
(03 marks)
- (ii) Calculate the total consumer expenditure of this product at the equilibrium.
(02 marks)
- (iii) Assume now that the product can be imported freely at the prevailing world market price of Rs. 3.00 per unit. What is the new level of consumer expenditure of this product? What is the imported expenditure of this product?
(05 marks)

(Total 20 marks)

(02) (a) "The value a consumer places on a unit of good or service depends on the satisfaction". Briefly explain two different approaches identified by you on the basis of measurement of the satisfaction

(05 marks)

(b) Calculate the optimum purchase mix of the consumer by using the following information.

Price of commodity x = Rs. 10

Price of commodity y = Rs. 6

Total Income = Rs. 86

Q	MU _x	MU _y
1	40	45
2	45	30
3	35	20
4	20	15
5	10	10
6	7	6
7	3	3
8	0	0

(05 marks)

(c) By using appropriate graphs explain how does the indifference curves analysis form the basis of the demand theorem.

(10 marks)

(Total 20 marks)

(03) (a) What are the economies and diseconomies of large scale of production in the long run?

(05 marks)

(b) "Average variable cost (AVC) and the Average Cost (AC) curves are getting closer, but never touch it" Do you agree with this statement? Briefly explain.

(05 marks)

(c) Explain producer's equilibrium with the help of production theory. What are the conditions of producer's equilibrium?

(05 marks)

(d) Which stage is selected by the rational producer as his optimum stage among different production stages? Explain the behaviors of the TP, AP and MP curves in this stage.

(05 marks)

(Total 20 marks)

- (04) (a) Arrange all market structures that you know of according to the degree of competitiveness starting from perfect competition. After arranging those markets compare its attributes among each other.

(08 marks)

- (b) "There is a notable difference between the profit maximizing output of the perfectly competitive firms and monopolistic firms in the long run". Present your ideas related to the above statement.

(06 marks)

- (c) Following price and Average cost functions were given related to a certain economy.

$$AC = \frac{100}{Q} + 60 + 40$$

$$P = 500 - 5Q$$

- (i) Compute the profit maximizing price and output level.
(ii) what is the profit at this maximum level?

(06 marks)

(Total 20 marks)

- (05) (a) In monopolistically competitive markets, why is the firm's demand curve assumed to be relatively more elastic in the long run than in the short run. Give reasons.

(04 marks)

- (b) "A monopolistic competitor gains average profit in the long run though he/she enjoys excess profit in the short run". Explain this statement using graphical analysis.

(05 marks)

- (c) What is the distinguishing characteristic of oligopoly in relation to other forms of market organizations?

(03 marks)

- (d) "Since under price leadership by the dominant firm, the firm's in the industry following the leader behavior as perfect competitors or price takers by always producing where the price set by the leader equals the sum of their marginal cost curves, the followers breakeven in the long run". This statement is true or false. Explain.

(08 marks)

(Total 20 marks)

Part - II

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

$C = 60 + 0.4Y$	(Consumption)
$I = 350$	(Investment)
$X = 200$	(Exports)
$TX = 40 + 0.3Y$	(Tax Function)
$G = 250$	(Government Expenditure)
$M = 60 + 0.14Y$	(Imports)

- (a) Calculate the equilibrium national income using the given information
(06 marks)
- (b) If import function changes as $M = 80 + 0.24Y$ what will be the new national income level.
(04 marks)
- (c) What is meant by the multiplier? Calculate the expenditure multiplier of this economy.
(05 marks)
- (d) When there is an equal increase in lump Sum, Tax revenues and government expending, in an $E=Y$ diagram, Expenditure line is shifting upward. Do you agree with this statement?. Briefly explain.
(05 marks)
- (Total 20 marks)

(07) (a) Suppose that the Government grants subsidies to private entrepreneurs to promote new investments. Discuss the implications of new government policy if it has resulted in increasing autonomous investment using the concept of "crowding - out Effects".
(06 marks)

(b) If the government has implemented an expansionary monetary policy to reduce the budget deficit, What changes would you expect in the rate of interest, National output and price level? Use appropriate diagrams to illustrate your answer.
(06 marks)

(c) Consider the following economic model.

$$C = 70 + 0.8y_d \quad (\text{Consumption})$$

$$I = 100 - 90r \quad (\text{Investment})$$

$$T_x = 35 + 0.2y \quad (\text{Taxes})$$

$$T_r = 40 \quad (\text{Transfers})$$

$$M_d = 0.25y - 200r \quad (\text{Money Demand})$$

$$\underline{M_s} = 140 \quad (\text{Money Supply})$$

P

Calculate the equilibrium level of income and the equilibrium rate of interest.

(08 marks)

(Total 20 marks)

(08) (a) What are the effects of recent financial crisis on employability in Sri Lanka.

(08 marks)

(b) Economic growth is an essential but not adequate factor to eradicate poverty in the developing world. Elucidate.

(07 marks)

(c) In reality every inflationary process is a mix of both demand pull and cost push process" do you agree ? Discuss.

(05 marks)

(Total 20 marks)