



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) – 2016  
January/ February - 2022

**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 five (05) Essay-Type questions. From part B select at least two (02) questions and from part C at least one (01) question. Answer them in the booklet provided.
- Using mobile phones, smart computers, or any other digital device is not allowed.
- Total 100% marks.

**PART A**

01. The major decision making parties of an economy are,
- a) The households, businesses and banks
  - b) The households, businesses and government
  - c) Businesses, government and the non-government sector
  - d) Businesses, Banks, parties who engage in foreign businesses

02. Which one of the followings is a microeconomics statement?
- a) The price of tea decreased by 15% last year
  - b) The unemployment rate was 6% in contrast to the labour force last year
  - c) The real gross domestic product increased by 7% last year
  - d) The tax income of the government reduced by 9% last year
03. Most of the time during consumption, butter and margarine are considered substitutes. If the price of butter rises,
- a) It is expected that the demand for butter will increase
  - b) It is expected that the demand for butter will decrease
  - c) It is expected that the quantity of demand for butter will decrease
  - d) It is expected that the quantity of demand for butter will increase
04. Jagath's income has just risen from Rs. 940 per week to Rs. 1,060 per week. As a result, he decides to purchase 12 percent more biscuits per week. The income elasticity of Jagath's demand for biscuits is
- a) 1.33
  - b) 0.90
  - c) 1.00
  - d) 0.75
05. Goods X and Y are perfect substitutes. A consumer's indifference curve for these commodities is represented by a,
- a) Upward sloping straight line
  - b) Upward sloping curve which is convex to origin
  - c) Downward sloping straight line
  - d) Downward sloping curve which is convex to origin

06. Law of diminishing returns says that,
- When the size of the factory increases, its marginal productivity is decreasing
  - When the size of the factory increases, its average cost is gradually decreasing
  - Tendency of declining the marginal productivity regularly when the variable inputs are added continuously mixing with fixed inputs
  - Tendency of declining the marginal product regularly when the variable inputs are added continuously mixing with fixed inputs
07. When the marginal productivity becomes zero of a firm's short run production,
- Total production reach its maximum
  - Average production reach its maximum
  - Marginal production becomes lower
  - Marginal production is equivalent to average production
08. An isoquant is defined by
- Combinations of inputs required to earn a constant level of profit
  - Combinations of labour required to maintain a constant quantity of capital
  - Combinations of inputs required to produce a constant quantity of output
  - Combinations of inputs required to incur constant cost
09. When the firm's production becomes zero, the total cost of production becomes 600/-. When it produces 05 units, the total cost of production becomes 1260/-. Calculate the average variable cost when producing 05 units.
- Rs. 120/-
  - Rs. 132/-
  - Rs. 244/-
  - Rs. 660/-
10. 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

11. The market demand curve for a perfectly competitive industry is  $Q_d = 12 - 2P$ . The market supply curve is  $Q_s = 3 + P$ . The market will be in equilibrium if,
- $P = 6$  and  $Q = 9$
  - $P = 5$  and  $Q = 2$
  - $P = 4$  and  $Q = 4$
  - $P = 3$  and  $Q = 6$
12. In which market, an interdependency can be seen?
- Perfectly competitive market
  - Monopolistic competitive market
  - Monopolistic market
  - Oligopolistic market
13. A monopolist produces 14,000 units of output and charges Rs. 14 per unit. Its marginal revenue is Rs. 8, and its marginal cost is Rs. 7. Its average cost is Rs. 10, and its average variable cost is Rs. 9. The monopolist should,
- Increase output, which will result in an increase in the firm's positive economic profit
  - Increase output, which will reduce the firm's economic losses
  - Shut down, which will reduce the firm's economic losses
  - Decrease output, which will result in an increase in the firm's positive economic profit
14. In a monopolistic competition,
- Only one seller can be seen
  - Only few sellers can be seen
  - There are many organisations which produce homogeneous products
  - There are many organisations which produce heterogeneous products

15. A real flow which is included in the circular flow of income model is,
- a) The flow of goods and services which are flowing from businesses to households
  - b) The flow of services which are flowing from businesses to households
  - c) The flow of goods and services which are flowing from households to businesses
  - d) The outflow of cash from businesses to households
16. A bag manufacturer purchased Rs. 2000 worth of leather and Rs. 250 worth yarn. After producing leather bags, he sold each for Rs. 9,000 for customers. The contribution of the leather bag manufacturer to the GDP is,
- a) Rs. 2,250
  - b) Rs. 6,750
  - c) Rs. 9,000
  - d) Rs. 11,250
17. In 2021, the nominal GDP growth of a country was 8% and the real GDP growth was 4%. What was the rate of inflation for this country?
- a) -4%
  - b) 2%
  - c) 4%
  - d) 8%
18. In the simple keynesian model, an increase in autonomous consumer expenditure causes the aggregate demand function to shift (1)\_\_\_\_, the equilibrium level of aggregate output to rise, and the IS curve to shift to the (2)\_\_\_\_\_.
- a) Up; left
  - b) Up; right
  - c) Down; left
  - d) Down; right

19. What is a problem the Central Bank has to face when setting interest rates?
- a) Setting interest rates is unproblematic
  - b) It has to fix the exchange rate, too
  - c) It must withdraw former loans
  - d) It must supply all demanded liquidity
20. Which one of the following statements is true?
- a) The unemployment rate does not tell us anything about the duration of unemployment
  - b) The duration of unemployment decreases during recessions
  - c) The duration of unemployment increase during economic expansions
  - d) The median duration of unemployment is usually greater than the average duration

(Total 2\*20 = 40 marks)

PART B

Question No. 01

- a) Briefly explain the current global economic changes which are adversely affect the long term economic growth of Sri Lanka

(05 marks)

- b) In the hypothetical economy, the price of a coconut and the quantity of the coconut supply are as follows:

Price of the coconut (P) (Rs.)	Quantity of coconut supply (Qs)
20	0
30	200
40	400
50	600
60	800
70	1000

The supply equation for the coconut supply is  $Q_s = a + bP$ .

- i) Find the value of b.
- ii) Find the value of a.
- iii) Substitute the values of a & b to the equation.

(07 Marks)

- c) The following changes have occurred in the four economies of the countries A, B, C, and D.

- I. The production possibility curve shift to the right during 2020-2025 in economy A.
- II. An increase in the production while the production possibility remains unchanged in economy B.
- III. The production possibility curve shift inward during 2020-2025 in economy C.

- IV. The level of production is changed from one point which lies on the production possibility curve to another point inwardly while the production possibility remain unchanged in economy D.

Illustrate each of above incidents on the production possibility curve and list down two (02) reasons for the mentioned incidents.

(08 marks)

**(Total 20 Marks)**

**Question No. 02**

- a) Differentiate consumer equilibrium from the producer equilibrium  
(08 Marks)
- b) What is the difference between a demand curve for a product in a perfectly competitive market and a demand curve for a product in a monopolistic competitive market? Explain the reasons.  
(06 Marks)
- c) Explain how the Law of diminishing productivity and law of returns to scale, affect to determine the production cost of an organization?  
(06 Marks)

**(Total 20 Marks)**

**Question No. 03**

- a) "A perfectly competitive firm should be shut down in the short run whenever it is unable to recover average variable cost". Explain this statement by using graphs.  
(07 marks)
- b) The demand and total cost function of a firm are given as follows;  
$$P = 200 + 2Q$$
$$TC = 25 + 4Q^2$$

i) Calculate the profit maximizing output level and price.  
ii) Calculate the profit of the firm.  
(06 marks)

c) "A monopoly produces a smaller output and charge higher price than perfect competitive market". Elaborate this statement using graph.  
(07 marks)

**(Total 20 Marks)**



PART C

Question No. 04

- a) “Double counting can cause miscalculations in the national income”. Describe this statement and state how to avoid this problem.

(06 marks)

- b) Company A, an agricultural company, grows wheat seeds and sells wheat to Company B in the amount of Rs.100. Company B, a flour company, processes wheat seeds into wheat flour. The company then sells it to the bread producer, Company C, for Rs. 250. Company C finally sells bread to consumers for Rs. 300. Calculate the value of final output.

(04 marks)

1. Assume that you have been given the following data regarding a hypothetical economy.

Item	Values in Rs. million
Income of self-employed	8000
Depreciation	200
Profit	1000
Rent	600
Net Interest	700
Salaries of employees	3000
Net indirect tax	500
Net factor income abroad	60
Net exports	-50
Net foreign current transfers	20

**Calculate,**

1. Domestic Income (04 marks)
2. Gross National Income (02 marks)
3. Gross National Product (GNP) at market price (02 marks)
4. Disposable National Income (02 marks)

**(Total 20 Marks)**

Question No. 05

The Tansaniya has a closed economy and obeys short-run IS-LM model. Assume it starts out in equilibrium in both the goods market and the money market. Tansaniya's economy is described by the following set of equations:

**Goods market:**

$$C = c_0 + c_1(1-t)Y,$$

where C is consumption; Y is income; t represents a proportional tax; and  $c_0$  and  $c_1$  are positive constants

$I = b_0 - b_1i$ , where I is investment; i is the interest rate; and  $b_0$  and  $b_1$  are positive constants

$G = G$ , where G is a positive constant

**Money market:**

$M_d = (M_t + M_{sp})$ , where  $M_d$  is money demand;  $M_t$  is the transaction motive and  $M_{sp}$  is speculative motive

Let  $M_s$  represent money supply

- I. Derive the goods market and money market equations defining IS and LM Curves  
(05 Marks)
  - II. Suppose the government increases its spending by  $\Delta G$ . Which curve will shift and what are the economic impacts? Draw a diagram that shows the impact of this policy.  
(05 Marks)
  - III. Suppose that the government decides to cut taxes instead of increasing spending. Analyze the effects of this expansionary fiscal policy using a diagram  
(05 Marks)
  - IV. Using the IS-LM model, explain what can be the impact on economy when government decided to expand money supply.  
(05 Marks)
- (Total 20 Marks)