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) – 2015

September - 2020

BMGT E 1035 - Business Economics

Time: 03 hours

Instructions :

i. This question paper consists with three (03) parts as Part I, Part II and Part III.

ii. No. of Questions

Part I - 14 Multiple choice questions

Part II and Part II - 07 questions

iii. Answering for the Part I is compulsory and it should be written on the question paper itself and should be attached to the answer booklet.

iv. Answer four (04) questions by selecting at least one question from part II and Part III.

v. You are strickly advised NOT to take Part I of the question paper out of the examination hall.

vi. You are allowed to use calculators.

Part I

1. Which of the following is a microeconomics statement?
   a. The real domestic output increased by 2.5 % last year.
   b. Unemployment was 9.8 % of the labour force last year.
   c. The price of rice declined last year.
   d. The general price level increased by 4 % last year.

2. The basic difference between macroeconomics and microeconomics is:
   a. Microeconomics concentrates on individual markets while macroeconomics focuses primarily on international trade.
   b. Microeconomics concentrates on the behaviour of individual consumers while macroeconomics focuses on the behaviour of firms.
   c. Microeconomics concentrates on the behaviour of individual consumers and firms while macroeconomics focuses on the performance of the entire economy.
   d. Microeconomics explores the causes of inflation while macroeconomics focuses on the causes of unemployment.
3. If the demand for agricultural products is inelastic:
   a. As the prices decrease, the revenues earned by producers increase.
   b. As the prices decrease, the revenues earned by producers decrease.
   c. Rising prices do not lead to differentiation in producers' income.
   d. The percentage decrease in prices is lower than the percentage increase in demand.

4. If a price increase of 50% results in an increase in the quantity supplied of the product from 10 to 20 pieces, calculate the coefficient of price elasticity of supply.
   a. ¼
   b. ½
   c. 1
   d. 2

5. 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.

6. 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.

7. The slope of an isoquant is:

   a. The marginal product.

   b. The marginal rate of technical substitution.

   c. The average product.

   d. The total product.

8. Calculate the average fixed cost (AFC), for a level of production $Q = 20$, knowing that the total cost function is: $TC = 200 + 3Q + 2Q^2$.

   a. 1060

   b. 200

   c. 20

   d. 10

9. If the short-run average variable costs of production for a firm are rising, then this indicates that:

   a. Average total costs are at a maximum.

   b. Average fixed costs are constant.

   c. Marginal costs are above average variable costs.

   d. Average variable costs are below average fixed costs.

10. Which of the following statements about monopoly is true.

   a. There are several companies producing a specific product.

   b. There is only one producing company, but the product has close substitutes.

   c. There is no competiton in the relevant market.

   d. Barriers to entry to the market are low.

11. Which statement is true?

a. National Expenditure = National Income

b. National Expenditure = National Income + National Savings

c. National Expenditure = National Income + Taxes

d. National Expenditure = National Income – Taxes

12. 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

13. 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.

14. 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.

Total Marks (14* 2) = 28

Part II

Answer four (04) questions by selecting at least one question from part II and Part III

Question 01

"Microeconomics is about maximizing profit for firms, surplus for consumers and producers while macroeconomics is about maximizing national income and growth"

Adam Smith – Wealth of Nation

a. With reference to the above statement, explain briefly how the maximizing profit for firms, surplus for consumers and producers affect to maximize national income and growth.

(06 Marks)

b. Scarcity is a common economic problem to developing and developed countries. Rationalize why scarcity is an existing economic problem to developed countries?

(06 Marks)

c. The market demand and supply functions for a commodity sold in a competitive market are given below.

$Qdx = 60 - 4p$

$Qsx = -20 + 12p$

I. Determine the equilibrium price and quantity.

(04 Marks)

II. Suppose the demand functions changes into $Qdx = 48 - 5p$ while the supply function remains unchanged. Determine the new equilibrium price and the quantity.

(02 Marks)

(Total 18 Marks)

Question No. 02

a. A firm faces for the following demand and total cost functions in a perfectly competitive market.

$P = 400 + 3Q$

$TC = 50 + 2Q^2$

Determine the price and the quantity at the profit maximizing level of output,

(04 Marks)

b. What form of market structure best describes the supermarket chain in Sri Lanka? Rationalize the answer with reasons.

(05 Marks)

c. Differentiate MRS (Marginal rate of Substitution) from MRTS (Marginal rate of Technical Substitution).

(05 Marks)

d. What is a cartel? What are the problems of forming an effective cartels.

(04 Marks)

(Total 18 Marks)

Question No. 03

a. "The perfectly competitive firm is said to be a price taker, because it takes the market price as given and has no control over the price". Briefly explain this statement by using suitable graphs.

(06 Marks)

b. "The operations of monopoly firms have come under the criticisms in practical all capitalists' countries". Does the operation of a monopoly firm reduce public welfare? Justify your answer.

(06 Marks)

c. A firm faces following demand and marginal cost functions.

$$P = 400 - 8Q$$

$$MC = 8Q$$

What is the profit maximizing price and quantity?

(06 Marks)

(Total 18 Marks)

Question No. 04

a. Define the concept "utility" and discuss the importance of utility when describing the consumer behaviour.

(06 Marks)

b. What does it mean by planned and enveloped curve? Explain why this curve takes "U" shaped.

(04 Marks)

c. "Cost curves are the mirror images of production curves". Do you agree with the above statement? Give reasons for your answer.

(04 Marks)

d. Explain customer equilibrium using indifference curve approach.

(04 Marks)

(Total 18 Marks)

Part III

Question No. 05

a. What is meant by 'value addition' in national income calculations?

(04 Marks)

b. Distinguish between nominal and real national income.

(04 Marks)

c. Calculate the net value added at the market price of a firm:

Items	Amount
Sale	400
Change in stock	-20
Depreciation	30
Net indirect taxes	40
Purchase of machinery	200
Purchase of intermediate product	250

(04 Marks)

d. Calculate the National Income with following information.

Contents	Amount
Net current transfers from the rest of the world	10
Private final consumption expenditure	600
National debt interest	15
Net exports	-20
Current transfers from the government	5
Net domestic product at factor cost accruing to the government	25
Government final consumption expenditure	100

Net indirect tax	30
Net domestic capital formation	70
Net factor income from abroad	10

(06 Marks)

(Total 18 Marks)

Question No. 06

a. "It is said that the IS – LM model examines the combined equilibrium of two markets" do you agree with this statement? justify.

(06 Marks)

b. Briefly explain the three motives which relate to the money demand.

(03 Marks)

c. Derive IS Curve relates to commodity market.

(05 Marks)

d. Briefly describe what is expansionary monetary policy by using the IS- LM model.

(04 Marks)

(Total 18 Marks)

Question No. 07

a. What is meant by the "crowding out effect"?

(05 Marks)

b. "The high level of unemployment currently is seen among the educated male youth in Sri Lanka". Comment on the above statement by highlighting the current unemployment trends in Sri Lanka.

(09 Marks)

c. What will happen to IS – LM equilibrium, if..........

I. Government decreases government expenditure

II. Central bank decided to decreases money supply

(04 Marks)

(Total 18 Marks)