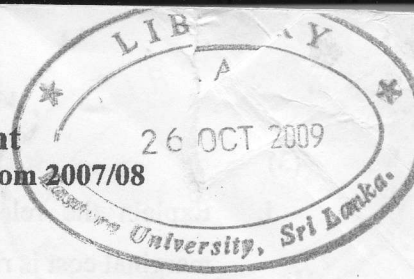


**Eastern University, Sri Lanka**  
**Faculty of Commerce and Management**  
**First Year Second Semester Examination in BBA /B.Com 2007/08**  
**(September 2009) (Proper)**



**ECN 1024 – Micro Economics**

**Answer all Questions**

**Time: Three Hours**

**(1)**

- i. How does cardinal utility analysis explain the downward sloping nature of a demand curve? (05 Marks)
- ii. How would you explain that a fall in price of salt does not make a consumer buy more of it? (05 Marks)
- iii. Why is the marginal utility of money assumed to be constant in the Marshallian analysis of the theory of consumer's behaviour? (05 Marks)
- iv. "All Giffen goods are inferior goods, but all inferior goods are not Giffen goods". Do you agree? Give reasons, and illustrate diagrammatically. (05 Marks)

**(2)**

- i. What is meant by optimum factor combination in production? (05 Marks)
- ii. Why does it not make any economic sense to produce in stage 1 or stage 3 of short-run production function? (05 Marks)
- iii. Consider the following short-run production function:

$$Q = 6L^2 - 0.4L^3$$

- a) Determine the marginal product function ( $MLL$ ).
- b) Determine the average product function ( $ALL$ ).
- c) Find the value of  $L$  that maximizes  $Q$ .
- d) Find the value of  $L$ , at which its average product takes on its maximum value.

**(10 Marks)**

(3)

- i. Explain the relationship between Average Cost and Marginal Cost? If the marginal cost is rising, does it mean that average cost must, also, be rising? (05 Marks)
- ii. Following the expansion of an industry in a city, many commercial banks set up their branches in the city. Due to the competition among the banks, the rate of interest goes down. As a result, firm's cost of borrowing goes down. Is it an internal or external economy of scale to a firm? (05 Marks)
- iii. Consider the following short-run Total Cost function:

$$TC = 100 + 50Q - 12Q^2 + Q^3$$

- a) Determine total fixed cost function.
- b) Determine total variable cost function.
- c) Determine average variable cost function.
- d) Determine marginal cost function.
- e) Calculate total cost, *ATC*, *AVC* and *MC* when the firm produces 10 units of output.
- f) Calculate the level of output, at which *AVC* is minimum. (10Marks)

(4)

- i. In long-run equilibrium, what will happen to price for a competitive firm if there is a rise in demand for the product of the market? (05 Marks)
- ii. Consider the following demand and total cost functions of a monopolist:  
 Demand function:  $Q = 360 - 20P$   
 TC function:  $TC = 6Q + 0.05Q^2$ 
  - a) Determine profit-maximizing price and output of the monopolist.
  - b) How much profits he will earn?
  - c) Calculate his total profit level. (10 Marks)
- iii. Why monopoly is said to be economically inefficient? (05 Marks)

sp Briefly explain the

- 1. Monopoly power
- 2. Consumer surplus

- 3. price discrimination
- 4. Marginal Rate of substitution

(5) Briefly explain the followings.



- i. Monopoly Power
- ii. Consumer Surplus
- iii. Price Discrimination
- iv. Marginal Rate of Substitution

(20 Marks)