

EASTERN UNIVERSITY, SRILANKA
FACULTY OF COMMERCE AND MANAGEMENT
FIRST YEAR SECOND SEMESTER EXAMINATION IN BBA/BCOM
PROPER / REPEAT/RE-REPEAT (2013/14)
(MAY 2016)

ECN 1024 Microeconomics

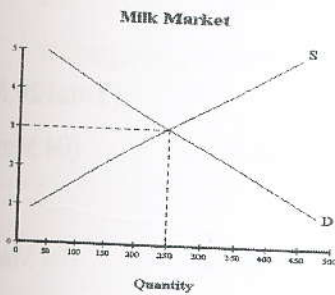
Answer all Questions

Time: 03 Hours

1. i. Explain the importance of microeconomics. (05Marks)
- ii. "Scarcity is the mother of all economic problem" explain. (05 Marks)
- iii. Differentiate the price consumption curve and Income consumption curve. (10 Marks)

(Total 20 Marks)

2. i. Briefly explain the relationship between diminishing marginal utility and the law of demand. (04 Marks)
- ii. The price elasticity of demand for rice cooker is estimated to be -1.2 . If the price of the rice cooker is reduced by 10 percent, how much of percentage increase would be in the quantity of rice cooker? (02 Marks)
- iii. Assume that milk is sold in a competitive market, which is currently at equilibrium where the store sells 250 gallons of milk per week at a price of Rs.3 per gallon.



Redraw the graph above and show how an increase in the cost of cattle feed will affect the equilibrium price and quantity of milk. Explain. (04 Marks)

- iv. Assume that the government has imposed an effective price ceiling (06 Marks)

in the milk market. Redraw the graph above and indicate each of the following.

- (a) The correct position of an effective price ceiling
- (b) The new quantity demanded and quantity supplied as a result of the price ceiling.

v. What economic problem will result from the price ceiling? (04 Marks)

(Total 20 Marks)

3. i. Explain the concepts of indifference curve and the budget line. (08 Marks)

- ii. Given the following marginal utility schedule for good X and good Y for the individual, and given that the price of X and the price of Y are both Rs.1, and that the individual spends all income of Rs.7 on X and Y,

Q	1	2	3	4	5	6	7
MUX	15	11	9	6	4	3	1
MUY	12	9	6	5	3	2	1

a. Indicate how much of X and Y the individual should purchase to maximize utility. (06 Marks)

b. Show that the condition for constrained utility maximization is satisfied when the individual is at his or her optimum.

- iii. Determine how much total utility the individual receives when he or she maximizes utility? How much utility would the individual get if he or she spent all income on X or Y? (06 Marks)

(Total 20 Marks)

4. i. What is meant by economic efficiency in the use of resources in production? (04 Marks)

ii. Explain the relationship between average cost curve and marginal cost. (04 Marks)

iii. Suppose that the total cost function for a firm is given by, (08 Marks)

$$TC = 100 + 2Q^2$$

Let the demand equation be given by, $P = 40 - 2Q$

- (a) What is profit maximizing price and quantity?

(b) Calculate total profit for the firm.

iv. Consider the Cobb-Douglas production function:

(04 Marks)

$$f(x_1, x_2) = A x_1^a x_2^b.$$

Given the following sets of parameter values, state whether the functions exhibit constant, increasing, or decreasing return to scale.

a). $A=1, a=1/3, b=2/3$

b). $A=2, a=1/3, b=2/3$

c). $A=1, a=1/4, b=1/4$

d). $A=a=b=1$

5.

(Total 20 Marks)

i. Briefly explain the important features of monopolistic competition?

(04 Marks)

ii. Explain the short run supply curve of a competitive firm.

(04 Marks)

iii. Distinguish between 1st degree and 2nd degree price discrimination in a monopolistic market.

(06 Marks)

iv. A Sri Lankan monopoly firm sells its product in the Sri Lankan and Indian market. The Sri Lankan demand function for the product is

(06 Marks)

$P_1 = 100 - Q_1$ and the Indian demand function for the product is

$P_2 = 80 - 2Q_1$. The firm's marginal cost of the product is Rs.20. If

the Sri Lankan monopoly firm can prevent any resale what price will it charge in both markets?

(Total 20 Marks)