

**EASTERN UNIVERSITY, SRI LANKA.**  
**FACULTY OF SCIENCE**  
**SECOND YEAR / SECOND SEMESTER EXAMINATION IN SCIENCE-2005/06,**  
**(Proper/ Repeat) March/ April- 2008**  
OC 201 **ECONOMIC THEORY - 1**



**Answer all questions.**

**2 hours**

(1)

- a) What do you mean by Economics?
- b) Explain the simple model of Economic system.
- c) What are the basic problems of an Economic system?
- d) Briefly explain the free Enterprise Economic system.

(20 marks)

(2)

- a) Explain the "Production Possibility Frontier"
- b) What are the assumptions of Production Possibility frontier?
- c) What is Law of Demand?
- d) What are the determinants of demand of a commodity?

(20 marks)

(3)

- a) What is demand function?
- b) Why demand curve is downward sloping?
- c) Briefly explain the individual demand and the market demand.
- d) What do you mean by law of supply?

(20 marks)

(4)

- a) What is the elasticity of demand?
- b) Point out the determinants of price elasticity
- c) Briefly Explain the Arc and Point elasticity
- d) What is producer surplus and consumer surplus?

(20 marks)

(5)

- a) What is utility?
- b) Distinguish between Total Utility (TU) and Marginal Utility (MU)
- c) What do you mean by law of diminishing marginal utility?
- d) Briefly Explain the consumer equilibrium (consider cardinal approach)

(20 marks)