



EASTERN UNIVERSITY, SRI LANKA

FACULTY OF COMMERCE AND MANAGEMENT

First Year Second Semester Examination in BBA/ B.COM 2008/2009 (Sep 2010)

ECN 1024 Micro Economics

Answer all questions

Time : 03 Hours

- i. Distinguish between movement along a demand curve and shift in the demand curve. (4 Marks)
- ii. You are given the following demand function for a commodity.  $Q_d = 20 - 2p$ . Where  $Q_d$  stands for quantity demanded of a commodity and  $p$  for its price. Draw the demand curve representing the above demand function. (4 Marks)
- iii. Suppose that a market consists of three consumers, A, B and C whose inverse demand functions are given below:
- A:  $P = 35 - 0.5Q_a$   
B:  $P = 50 - .25Q_b$   
C:  $P = 40 - 2Q_c$
- a) Find out the market demand function for the commodity?  
b) If the market supply function is given by  $Q_s = 40 + 3.5p$ , determine the equilibrium quantity and price. (6 Marks)
- iv. How do governments act as a price controller in a goods market? Explain (6 Marks)
- i. Explain how to derive an Engel's Curve. (4 Marks)
- ii. Using indifference curve analysis, show how price effect of a commodity is decomposed into income effect and substitution effect. (8 Marks)
- iii. Ramesh's budget line relating good X and good Y has intercepts of 50 units of good X and 20 units of good Y. If the price of good X is Rs.12:
- a) What is Ramesh's income?  
b) What is the price of good Y?  
c) What is the slope of the budget line? (8 Marks)

3. i. Explain different levels of return to scale with suitable diagrams. (6 Marks)
- ii. Define the concept of average product, marginal product and total product. Show how they are related to each other. (6 Marks)
- iii. How can a firm become more efficient as the scale of production rises? Explain (8 Marks)
4. i. Define market. Does it necessarily mean a particular place where goods and services are bought and sold? (4 Marks)
- ii. "If there is free entry of new firms in the competitive industry, price must fall to the level of minimum long-run average cost" Explain. (8 Marks)
- iii. From your knowledge of the relationships between various concepts of cost of production, fill in the blanks in the following table.

| Q  | TC  | TFC | TVC | ATC  | AFC | AVC | MC |
|----|-----|-----|-----|------|-----|-----|----|
| 0  | 125 |     |     |      |     |     |    |
| 10 |     |     |     |      |     |     | 5  |
| 20 |     |     |     | 10.5 |     |     |    |
| 30 |     |     | 110 |      |     |     |    |
| 40 | 255 |     |     |      |     |     |    |
| 50 |     |     |     |      |     | 3   |    |
| 60 |     |     |     |      |     |     | 3  |
| 70 |     |     |     | 5    |     |     |    |
| 80 |     |     | 295 |      |     |     |    |

(8 Marks)

5. i. What is meant by price discrimination in monopoly? (4 Marks)
- ii. A monopolist will never sell its product at a price less than its average total cost? Is it true or false? Give reasons. (8 Marks)
- iii. Show why supply curve does not exist under monopoly. (8 Marks)