



EASTERN UNIVERSITY, SRI LANKA
FIRST YEAR FIRST SEMESTER EXAMINATION IN AGRICULTURE – 2006 / 2007
EXTERNAL DEGREE

AEC 1101: INTRODUCTORY MICRO ECONOMICS

Answer ALL Questions

Time allowed: 2 hours

01. a) (i) Distinguish between Micro Economics and Macro Economics.
(ii) Illustrate the 'Circular Flow Model' of Economic Resources.
- b) (i) Differentiate between Cardinal Utility analysis and Ordinal Utility analysis.
(ii) What does the Law of diminishing Marginal Utility say?
- c) You are given the following information
Price of Good X = Rs. 100/= per unit
Price of Good Y = Rs. 500/= per unit
Income of a particular person = Rs. 2000/=

Using the above information, answer the following

- (i) Find out the maximum amount of good X this person can buy, if he spends his whole income on X.
(ii) Find out the maximum amount of good Y this person can buy, if he spends his whole income on Y.
(iii) Draw the Budget Line for the two goods X and Y.

(25 Marks)

02. a) The following information represents the production possibilities for two goods (X,Y) in an economy.

Good X	Good Y
0	50
1	49
2	45
3	40
4	32
5	20
6	0

- (i) Plot the Production Possibility Curve (PPC) for Good X and Good Y.
(ii) Show on your diagram; a point of unemployed resources (R) and an unattainable point (S)
(iii) What are the opportunity costs of producing successive units of 'X' (from 1-6)

b) Using the following data, answer the questions below:-

Price (Rs.)	Quantity demanded (Kg)	Quantity supplied (Kg)
6	20	65
5	24	60
4	30	50
3	40	40
2	60	30
1	120	00

- (i) What is the Equilibrium Price?
- (ii) Describe the market position when the price is Rs. 2/= and Rs. 4/=.
- (iii) If a rise in income caused consumers to demand 20 more of the commodity at every price, what would be the new Equilibrium price and Quantity?
(25 Marks)

03. a) What is Production function?

b) Following data shows the production obtained by applying different quantities of labour to a fixed area of land

Land	1	1	1	1	1	1	1	1	1	1
Labour	0	1	2	3	4	5	6	7	8	9
Total Production (TP)	0	2	5	9	12	14	15	15	14	12

From the above table,

- i) Calculate the Average Production (AP) and Marginal Production (MP) of labour.
- ii) Plot the curves of AP, MP and TP of labour on the same graph.
- iii) Indicate the boundaries of the three Stages of Production in your graph, and
- iv) Explain the shape of the AP and MP in terms of the shape of the TP curve
(25 Marks)

04. a) (i) Define the term 'Aggregate Demand'

(ii) List the factors affecting or determinants of Aggregate Demand

b) There are 2000 identical consumers in a market for processed vegetable packs, each with a demand function given by $Q_D = 12.1 - 2P$ and 10 identical producers in the same market, each with a supply function given by $Q_S = 20P$.

- (i) Find the market demand function and market supply function for processed vegetable packs.
- (ii) Find the price and quantity of processed vegetables packs at the market equilibrium condition.
(25 Marks)