

Eastern University, Sri Lanka
Faculty of Commerce and Management

First Year Second Semester Examination in BBA/BCom -2016/17 Repeat-
(January 2019)

ECN 1024 Microeconomics

Answer all Questions

Time: 03 Hours

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- a) "Scarcity is the fundamental problem to understand the economics" explain?
(5 Marks)
- b) What happens to the equilibrium price and quantity if the supply curve shifts to the right?
(5 Marks)
- c) Differentiate between elastic and inelastic demand.
(5 Marks)
- d) Graphically explain consumer surplus and producer surplus.
(5 Marks)
(Total 20 Marks)
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- a) What do you understand about Cardinal Utility Approach?
(4 Marks)
- b) Can indifference curve cross each other? Graphically explain your answer.
(4 Marks)
- c) A consumer spends all her income on food (f) and clothing (c). At the current prices $P_f = \text{Rs. } 10$ and $P_c = \text{Rs. } 5$, He maximizes his utility by purchasing 20 units of food and 50 units of clothing. Find out the followings.
(i) What is the consumer's income?
(ii) What is the consumer's marginal rate of substitution of food for clothing at the equilibrium position?
(6 Marks)
- d) Graphically show the derivation of Engel curve from Income Consumption Curve (ICC).
(6 Marks)
(Total 20 Marks)

- 03) a) Briefly explain the law of diminishing returns in the short run production?
- b) What are the factors which cause increasing returns to scale?
- c) Given the following total cost function $TC=1500+15q-6q^2+q^3$. Determine AVC, MC and AC at 10 units of output.
- d) A firm has the following production function:

$$Q = \sqrt{KL}$$

- i) Calculate MP_L and MP_K .
- ii) Calculate $MRTS_{LK}$
- iii) Identify the type of returns to scale does it represent?

(Total

- 04) a) Explain the various features of perfectly competitive market.
- b) Why marginal revenue of monopolist is less than the price charged? Briefly
- c) Graphically explain the price rigidity under monopoly.
- d) A monopolist faces the demand curve $P=100-2Q$. If marginal cost is constant equal to 20, what is the equilibrium levels of monopolist's i) output and ii) price?

(Total

- 05) Briefly explain the followings
- i) Income and substitution effect of price change
- ii) Long run Average cost curve
- iii) Properties of Cobb Douglas production function
- iv) Factors of production

(Total 20 (5*