

EASTERN UNIVERSITY, SRILANKA.
FACULTY OF COMMERCE AND MANAGEMENT
DEPARTMENT OF ECONOMICS

FIRST YEAR SECOND SEMESTER EXAMINATION IN BBA/ BCOM 2011/2012
(AUGUST/SEPTEMBER 2014) (PROPER/REPEAT/RE-REPEAT)
ECN1024 MICRO ECONOMICS

Time 3 Hours

Answer all Questions

1. (a) What is meant by “derived demand curve”? (05 Marks)
(b) When is the supply curve of a labour effort backward bending? Explain. (05 Marks)
(c) Why the demand curves slope downwards? (05 Marks)
(d) Explain the effect of government setting the price of commodity (05 Marks)
(i) Below equilibrium with a price ceiling
(ii) Above equilibrium with a price floor

(Total 20 Marks)

2. (a) What is meant by “diminishing marginal utility”? Explain with example. (06 Marks)
(b) Drive the demand curve for a commodity from Marshall’s cardinal utility analysis. (06 Marks)
(c) $Tu_x = 120x - 10x^2$, $Tu_y = 110y - 10y^2$, $P_x = \text{Rs. } 10$, $P_y = \text{Rs. } 5$, $I = \text{Rs. } 50$. Using these information how many of each commodity he will buy and what are the assumption he will use to drive this satisfaction? (08 Marks)

(Total 20 Marks)

3. (a) What is “Kinked Demand curve”? (04 Marks)
(b) Explain the important features of oligopoly market. (06 Marks)
(c) A firm’s demand curve is $Q = 100 - 2P$, Marginal and Average costs for the firm are constant at Rs. 10 per unit. Find the following. (10Marks)
What output levels should the firm produce
(i) to maximize profits?
(ii) maximize sales revenue?
(iii) What are the respective profits at each output level?

(Total 20 Marks)

4. (a) Briefly explain the “**dead weight loss**” of monopoly. (06 Marks)

(b) “Monopoly is said to be economically inefficient” explain. (06 Marks)

(c) A discriminating monopolist is selling a product in two separate markets in which demand functions are

$$\text{Market -1 } Q_1 = 14 - P_1$$

$$\text{Market - 2 } Q_2 = 14 - P_2$$

The monopolist's MC (Marginal Cost) is equal to 4.

Find the profit maximizing output, its allocation between two markets and the price charged. What happens to profit? (08 Marks)

(Total 20 Marks)

5. (a) Explain the various economies of scale that accrue to the firm when it expands its scale of production. (06 Marks)

(b) What are factors that bring about learning curve effect? (06 Marks)

(c) A monopolist has the cost function $TC = 200Q + 15Q^2$ and faces the demand function given by $P = 1200 - 10Q$. Find the following. (08 Marks)

i. What level of output maximizes its profit?

ii. What is the profit-maximizing price?

iii. What is its maximal profit?

(Total 20 Marks)