

EASTERN UNIVERSITY, SRI LANKA

FACULTY OF COMMERCE AND MANAGEMENT

First Year Second Semester Examination in BBA/ B.COM -2010/2011 (Feb.2013)

ECN 1024 Microeconomics



Answer all questions

Time : 03 Hours

1.
 - i Define the concept of cross elasticity with suitable example. (4 Marks)
 - ii Why does demand curve usually slope downward to the right? Explain. (4 Marks)
 - iii What is meant by the term "Price floor"? Explain the economic effect of price floor. (6 Marks)
 - iv What is meant by *Ceteris Paribus*? What factors are covered under *ceteris paribus* condition in relation to demand for a commodity? (6 Marks)

(Total 20 Marks)

2.
 - i Why consumer's indifference curves are convex to the origin? Explain. (4 Marks)
 - ii What is price consumption curve? Derive demand curve from a price consumption curve. (4 Marks)
 - iii An individual marginal utility for commodities given by the following relations:
 $MU_x = 40 - 5x$ and $MU_y = 20 - 3y$
 - a) What is his Marginal Rate of Substitution (MRS) in consumption at the consumption basket of $X=3$ and $Y=5$?
 - b) If $P_x=5$ and $P_y=1$, what is the basket where the consumption get equilibrium? (6 Marks)
 - iv Show the welfare effects of tax on the individuals by the application of indifference curve. (6 Marks)

(Total 20 Marks)

3.
 - i Explain the law of diminishing returns in the Short run production. (4 Marks)
 - ii What is meant by increasing returns to scale? Explain the factors that cause increasing returns to scale. (4 Marks)
 - iii Define the concepts of average product, marginal product and total product. Show how they are related to each other. (6 Marks)

iv. Given the following table of costs:

Output	0	1	2	3	4	5
Total cost	50	80	100	150	250	750

Calculate the followings:

- (i) Fixed cost
- (ii) Average cost of production
- (iii) Variable cost per unit
- (iv) Marginal cost

(6 Marks)

(Total 20 Marks)

4. i "The demand curve faced by a monopolistic competitor is likely to be less elastic than the demand curve faced by a perfectly competitive firm" why?

(4 Marks)

ii Why Oligopoly firm faces kinked demand curve? Explain.

(4 Marks)

iii Explain the similarities and differences between the Monopoly and Perfect Competitive firms.

(6 Marks)

iv Suppose that the total cost function for a firm is given as:

$$TC = 500 + 20Q^2$$

Let the demand equation be given as:

$$P = 400 - 20Q$$

- a) What is the profit maximizing price and quantity?
- b) Calculate the total profit for the firm.

(6 Marks)

(Total 20 Marks)

5. i. Show how households and firms relate with the factor market and product market respectively?

(4 Marks)

ii. What are the determinants of factor demand?

(4 Marks)

iii. "Economic profits of monopolistic competitive firm are eliminated in the long run however the equilibrium of the firm still reflects the inefficiency condition" Do you agree or not? Explain.

(6 Marks)

iv. Why a long run cost curve gets "U" shape? Explain.

(6 Marks)

(Total 20 Marks)