Answer all the questions
Time allowed: 02 hours

1)

a) What do you mean by **"Rationing device"**?

b) What are the major economic activities of a country?

c) Draw the model which shows exchanging in a micro-economic system?

d) What are the special characteristic features of an open economy?

e) How it affects the local situation of a developing country like Sri Lanka?

2)

a) Explain the relationship between price elasticity of demand and total revenue?

b) The marginal utility schedule for commodity A and B are given in the following table. Price of commodity A is 2/= and B is 4/=. Rani spent all of her income of 24/= to buy both of them. How much in each she will buy?

Q	1	2	3	4	5	6	7	8
MUA	32	28	24	20	16	12	8	4
MUB	44	40	36	32	28	24	20	16

c) Draw the budget constraint line for the above condition?

d) The individual demand and the individual supply of a commodity z is given as below: Individual demand: $12 - 2Px$, Individual supply: $20Px$ [Consider there are 1000 unique individuals and 100 identical producers in the market]. Find out the equilibrium price and equilibrium quantity mathematically.

e) What is the different between long run and short run production?

3)
a) Using indifference curve analysis, Budget constraint line theory derive an elastic demand curve of commodity X for a reduction in Px, while keeping constant the price of y and consumers taste and money income.

b) Why do you think that the costs measured by forgone alternatives costs are not constant?

c) Given the following TVC schedule and TFC = $12, find TC, AFC, AVC, AC, and MC for various levels of output:

Q	1	2	3	4	5	6
TVC ($)	6	8	9	10.5	14	21

d) Plot on the same graph the AVC, AC, and MC curves for the above condition.

e) What is the relationship between AVC, AC and MC?

4)
a) Given the following TPL.

L	1	2	3	4	5	6	7
TP	2	6	12	16	18	18	16

i)   On the same set of axis plot TPL, APL and MPL schedules.

ii)   Indicate on the figure the stages of production for L?

iii)   Where the law of the diminishing returns does for L begins to operate?

iv)   Where will a rational producer produce? Why?