EASTERN UNIVERSITY, SRI LANKA

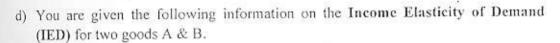
FIRST YEAR FIRST SEMESTER EXAMINATION IN AGRICULTURE - 2009/2010

AEC 1101 - INTRODUCTORY MICROECONOMICS

Answer ALL questions.

Time allowed: 2 hours

- 01)a) Define the term scarcity in economic point of view.
 - b) What can be concluded about an economy which is
 - i) Operating on its PPC, and
 - ii) Operating inside the PPC.
 - c) What is meant by Price Elasticity of Demand?



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- i) Which is a 'Normal good' and which is an 'Inferior good'?
- ii) Give possible examples of each good and explain why you have chosen these goods?
- 2. a) Define a 'Production Function'.

b)You are given the following information about the output of a good Y, as successive workers are added (employed) to a fixed amount of land and capital equipment.

Number of workers	0	1	2	3	4	5	6	7	8
Total Output (units of Y)	0	4	10	18	24	28	30	30	29

Using the above information answer the following questions.

- i) Calculate the Average Product (AP) and Marginal Product (MP)
- ii) Plot them on a clearly labeled graph

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- iii) At what level of employment does diminishing returns sets in?
- iv) Indicate clearly the "Stages of Production" on this graph.
- v) In which 'stage of production' does a rational producer operate? Why?
- 2. a) List the characteristics of 'Indifference Curves'?
 - b)You are given the following information.

Price of good X = Rs. 100/=, Price of good Y = Rs. 500/=, and Income of a particular person = Rs. 2,000/=

Using the above information answer the following questions:

- i) Find out the maximum amount of good X this person can buy,
- ii) Find out the maximum amount of good Y this person can buy, and
- iii) Draw the Budget Line for the two goods X and Y?
- 3. a) Write down the conditions of consumer equilibrium in cardinal utility approach?
 b) The following table shows an individual's marginal utility schedule for commodities X and Y. Assume Px = Rs.2, Py = Rs.1, individual's total money incis Rs.12; and he spends all his income to by X and Y. How much amount of X at will he buy?

Quantity	1	2	3	4	5	6	7	8
MUx	16	14	12	10	8	6	4	2
MUy	11	10	9	8	7	6	5	4

c)The individual demand and the individual supply of a commodity X is given below and individual demand: (8-Px), and Individual supply: (20Px-40); (consider there are unique individuals and 100 identical producers in the market). Find out the equilibration of t