

EASTERN UNIVERSITY, SRI LANKA

FACULTY OF SCIENCE

3RD YEAR 2ND SEMESTER EXAMINATION IN SCIENCE – 2002/2003

(RE-REPEAT) (JUNE/JULY 2005)

OC 301 Economics II

Time : 03 hours

Answer five questions including question number one and selecting atleast two questions from each part.

01. Give short answer for the following :

- (a) What are the fundamental economic problems?
- (b) Define a capitalist economy.
- (c) Draw a concave shaped production possibility curve with hypothetical data and explain the opportunity cost.
- (d) Explain equi-marginal utility.
- (e) Distinguish between short-run and the long-run production function with examples.
- (f) Why in a short-run ATC curve is U shaped?
- (g) Why a monopolist has a downward sloping demand curve?
- (h) Distinguish between normal and abnormal profit.
- (i) Draw a diagram to show equilibrium of a monopolist.
- (j) What is meant by double coincidence of wants?
- (k) State the three types of demand for money.
- (l) Explain the term inflationary gap with diagram.
- (m) In an economy autonomous consumption is 200. Million Rupees.
Marginal Propensity to Save (MPS) = 0.2
 - (i) Prepare an income-consumption schedule.
 - (ii) Find out the Break-even level of income.
 - (iii) What happens to the value of Average Propensity to Consume (APC) , When Income (Y) increases?

- (n) "Indifference curves do not intersect" prove.
- (o) Explain the meaning of National Income.
- (p) Define Marginal Rate of Technical Substitution (MRTS) with a numerical example.

(40 marks)

Part -I

02. (a) Following data refers to a consumer consuming commodities A and B.

$$MU_A = 52.5 - 2.5 A$$

$$MU_B = 21 - B$$

His disposable income is Rs.70.

$$P_A = 2.50$$

$$P_B = 5.00$$

- (i) Assume that he spends all his income in both these commodities and find out the consumer equilibrium.

(04 marks)

- (ii) Calculate the total utility of commodities A and B at different combinations of the two.

(04 marks)

- (b) Explain the characteristics of indifference curves with diagrams.

(07 marks)

03. (a) The short-run Fixed Costs (FC) of a firm is Rs 300.

Complete the following table :

Q	TC	VC	AFC	AVC	AC	MC
0	300					
1	540					
2	680					
3	750					
4	952					
5	1200					
6	1602					

(05 marks)

- (b) Explain 'the law of diminishing returns' by using hypothetical data. (05 marks)
- (c) How does the above law relate to the shape of the firm's short-run cost curves. (05 marks)
04. (a) List the causes of monopoly. (07 marks)
- (b) Explain and illustrate output and profit maximization by a firm operating under perfect competition in the short-run and long-run. (08 marks)

Part - II

- (a) State briefly the functions of money-briefly. (05 marks)
- (b) Distinguish between near money and money substitutes. (05 marks)
- (c) Explain transactions demand for money and the factors which determine it. (05 marks)
- (a) Define Inflation. (05 marks)
- (b) Discuss the main types of Inflation. (05 marks)
- (c) State some measures to control Inflation. (05 marks)

07. The following table shows an economy's consumption schedule.

Income (Y)	Consumption (C)
0	60
100	130
200	200
300	270
400	340

Answer the following questions.

- (a) Find out the consumption function. (03 marks)
- (b) Define Average Propensity to Consume (APC) and prove that $APC + APS = 1$ (03 marks)
- (c) State the value of Marginal Propensity to Consume (MPC) and discuss the relationship between MPC and the multiplier. (03 marks)
- (d) Given that Investment (I) = 40, Govt. Spending (G) = 50, calculate the equilibrium level of National income. (03 marks)
- (e) Government imposes a fixed amount of tax. (not related with income level) to maintain a balanced budget. Find out the new equilibrium level of income and the value of tax multiplier. (03 marks)
