

16 OCT 2008
Eastern University, Sri Lanka

Eastern University, Sri Lanka
Faculty of Commerce and Management
First Year Second Semester Examination in B.Com and B.B.A-2007/2008
(Repeat)(2008,July)
ECN 1214: Economic Theory

Answer all Questions

Time: Three Hours

- 1.(i) Define the law of demand ,demand function and demand curve
(05 Marks)
- (ii) Briefly explain the law of diminishing marginal utility.
(05 Marks)
- (iii) How does Marshall derive the demand curve from utility functions?
(05 Marks)
- (iv) What are the main characteristics of Ordinal Utility theory?
(05 Marks)
- (Total 20 Marks)
2. (i) Graphically explain the relationships between Marginal, average and total product
(06 Marks)
- (ii) what is the law of diminishing marginal returns
(03 Marks)
- (iii) Consider the production function $Y = 80 + 4X - 0.04 X^2$
(a) Derive average and marginal production functions
(b) Find the level of X , where total product reaches its maximum.
(c) Find the level of input at the inflexion point.
(06 Marks)
- (iv) Explain the marginal rate of technical substitution?
(05 Marks)
- (Total 20 Marks)
3. (i) Consider the following cost function
 $TC = 5Q^2 + 11Q + 16$
(a) Find the level of AVC,AC and MC when output level is 3
(03 Marks)
- (b) Find the level of output at which marginal cost curve cuts average variable cost curve
(02 Marks)
- (c) Use the equation to prove that the AFC curve never cuts the horizontal axis
(02 Marks)