

EASTERN UNIVERSITY, SRI LANKA

FIRST YEAR FIRST SEMESTER EXAMINATION IN AGRICULTURE – 2008/2009

AEC 1101 – INTRODUCTORY MICRO-ECONOMICS

ANSWER ALL QUESTIONS

TIME: 2 HOUR

01)

a) Briefly explain how is micro-economics different from macro-economics?

b) The following table explains a typical production data of an industry using labour as the changing variable and land as the fixed variable.

| Number of land units | Number of labourers | Total Product |
|----------------------|---------------------|---------------|
| 2                    | 1                   | 24            |
| 2                    | 2                   | 72            |
| 2                    | 3                   | 138           |
| 2                    | 4                   | 216           |
| 2                    | 5                   | 300           |
| 2                    | 6                   | 384           |
| 2                    | 7                   | 462           |
| 2                    | 8                   | 528           |
| 2                    | 9                   | 576           |
| 2                    | 10                  | 600           |
| 2                    | 11                  | 594           |
| 2                    | 12                  | 552           |



- i) Copy the table in your answer script. Find the Average and Marginal Product of the given data.
- ii) Draw the graph for the given data and mark the typical production stages in your graph.
- iii) Explain the special characteristics of the identified production stages in the graph drawn.
- iv) If the unit price of labour is 96 rupees and the unit price of output is 2 rupees, find the optimum level of labour use?

02)

Raja has a disposable income of Rs 98. He is spending that income to buy the goods X and Y. The Marginal Utility schedule of this individual for the goods X and Y are shown in the given table below. The unit prices of X and Y are rupees 12 and 8 respectively. Find the equilibrium level of X and Y that he can purchase with his income?

| Quantity of X or Y | 1  | 2  | 3  | 4  | 5  | 6 | 7 | 8   |
|--------------------|----|----|----|----|----|---|---|-----|
| MU (X)             | 36 | 34 | 30 | 24 | 16 | 7 | 0 | -12 |
| MU (Y)             | 34 | 31 | 27 | 22 | 16 | 6 | 0 | 8   |

03)

a) Briefly explain three different characteristics of Indifference Curves.

b) Rani spends Rs 10,000.00 every month on her food. Rani's diet consists completely of milk and cereal. If she buy only cereal, she buys 200 packets every month. If she buys only milk she buys 500 bottles every month. Because Rani is healthconscious, she spends 25 percent of this income on cereal and 74 percent on milk. Let us suppose that the price of milk goes up by 1 unit per bottle because of sudden disease attack on all cows.

i) Draw her budget constraint and indifference curves before and after the price changes (Explain completely for both situations).

ii) Explain your idea on income and substitution effect by relating to the example above?

04)

Write Short Notes on the followings: (write down and relate the ideas to theory)

a) Substitutes and complements.

b) Short run cost curves.

c) Demand function for the broiler meat.

X-----X