EASTERN UNIVERSITY, SRI LANKA
FACULTY OF COMMERCE AND MANAGEMENT
FIRST YEAR-SECOND SEMESTER EXAMINATION IN BBA/B.COM-2009/10
(PROPER/REPEAT)- (DECEMBER, 2011)
ECN 1024: MICROECONOMICS

Answer all questions   Time: Three hours

(1)

(i) What is price elasticity of demand?   (03 Marks)

(ii) The demand for salt is probably more inelastic than the demand for potatoes. Why ?   (03 Marks)

(iii) Differentiate Point elasticity from Arc elasticity   (07 Marks)

(iv) Graphically explain, how slope of a demand curve determines the price elasticity for a commodity   (07 Marks)

(Total 20 Marks)

(2)

(i) Distinguish between cardinal utility and ordinal utility   (03 Marks)

(ii) List out the characteristics of an indifference curve   (05 Marks)

(iii) Graphically show the diminishing marginal rate of substitution   (06 Marks)

(iv) Explain substitution effect using indifference curves and budget curves (06 Marks)

(Total 20 Marks)

(3)

(i) Among the factor of inputs, land has been given a special meaning in economics. How do you explain it?   (03 Marks)

(ii) What are the three stages of short-run production function? Why does it not make any economic sense to produce in stage I and stage III?   (03 Marks)

(iii) State the law of diminishing returns. Why does a diminishing marginal return to a variable input occur eventually?   (07 Marks)

(iv) Suppose a firm is facing the following production function
$$Q = 10L - 0.5L^2$$

(a) Determine the marginal and average production functions   (02 Marks)

(b) Find the level of L that maximizes output (Q)   (02 Marks)

(c) Find the levels of L at which its average and marginal product takes on its maximum value   (03 Marks)

(Total 20 Marks)

(4)

(i) Define total revenue (TR), marginal revenue (MR) and average revenue (AR)

(03 Marks)

(ii) Graphically explain the relationship between average revenue, marginal revenue and price elasticity of demand curve of a firm.

(05 Marks)

(iii) How do you prove that a firm will maximize its profit when the marginal revenue is equal to its marginal cost? (06 Marks)

(iv) What is learning curve? Why long-run average cost curve is of U-shape?

(06 Marks)

(Total 20 Marks)

(5)

(i) What is market? List out the characteristics of perfect competitive market structure (03 Marks)

(ii) Argue why and how monopoly power has to be regulated? (04 Marks)

(iii) Explain how Prof.P.C.Pigou has distinguished price discrimination into three categories. (05 Marks)

(iv) Suppose a firm operating under perfectly competitive conditions in the market in the short run, faces the following revenue and cost conditions

$$TR = 12Q$$
$$TC = 2+4Q+Q^2$$

where Q is output. TR and TC stand for total revenue and total costs

(a) Determine the equilibrium level of output and total profit made

(04 Marks)

(b) Find the level of average cost at the equilibrium level and show all your findings in a graph (02 Marks)

(c) Suppose market price increases by 2/=, Determine new profit of the firm

(02 Marks)

(Total 20 Marks)

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