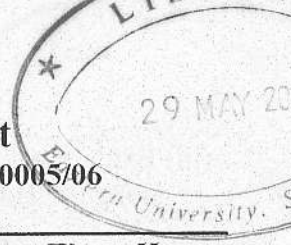


Eastern University, Sri Lanka
Faculty of Commerce and Management
Special Examination for Final Year in B.Com and B.B.A-2005/06
ECN 2013: Advanced (Micro) Economic Theory



Answer all Questions

Time: Three Hours

- 1.(i) What is Demand? (04 Marks)
- (ii) How the following cause demand to increase or decrease? Why?
- (a) An increase in consumers' income (04 Marks)
 - (b) An increase in the price of substitutes (04 Marks)
 - (c) An increase in the price of complements (04 Marks)
 - (d) An increase in the number of consumers in the market. (04 Marks)
- (Total 20Marks)**

2. (i) From the following total utility schedule

Qx	0	1	2	3	4	5	6	7
TUx	0	4	14	20	24	26	26	24

- (a) Derive the marginal utility schedule. (04 Marks)
 - (b) Plot the total and the marginal utility schedules. (05 Marks)
 - (c) Determine where the law of diminishing marginal utility begins to operate. (05 Marks)
- (ii) Graphically explain how a price effect consists of income and substitution effects (06 Marks)
- (Total 20Marks)**

3. (i) What is production function? (03 Marks)

(ii) Explain the characteristics of a short run production function

Consider the following production function

$$Y = 150 + 4X - 6X^2$$

- (a) Derive average and marginal production function (04 Marks)
- (b) Find the levels of Average and marginal product where $X = 5, 10, 11$

(04 marks)

- (iii) Explain why the Marginal Rate of Technical Substitution falls as we move down along the Iso-Quant curve. (04 Marks)
- (iv) Explain the characteristics of a Cobb –Douglas production function (05 Marks)
- (Total 20Marks)**

4. (i) Explain the reasons for the shape of the average variable cost and average cost (04 Marks)
- (ii) Why are Iso-cost lines straight lines? (03 Marks)
- (iii) If a firm's average cost curves are U-shaped ,why does its average variable cost curve achieve its minimum at a lower level of output than the average total cost curve? (04 Marks)
- (iv) Consider the following cost function

$$TC = 2Q^2 + 10Q + 15$$

- (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 (03 Marks)
- (c) Use the equation to prove that the AFC curve never cuts the horizontal axis (03 Marks)
- (Total 20Marks)**

- 5.(i) The supply curve for a firm in the short run is the short-run marginal cost curve. why? (05 Marks)
- (ii) Under which conditions a firm maximizes its profit in perfect competition market (05 Marks)
- (iii) Graphically explain the long run profit maximization situation of a firm in the monopoly market (05 Marks)
- (iv) What is the significance of product differentiation in a market characterized by monopolistic competition? (05 Marks)
- (Total 20Marks)**