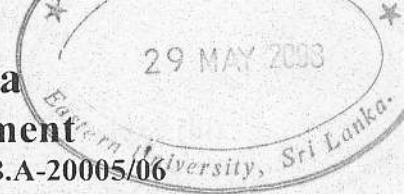


**Eastern University, Sri Lanka**  
**Faculty of Commerce and Management**  
**Special Examination for Final Year in B.Com and B.B.A-20005/06**  
**ECN 2013: Advanced (Micro) Economic Theory**



**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. (04Marks)
- (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 Mark

(iv) Explain the characteristics of a Cobb –Douglas production function

(05 Mark

**(Total 20Mark**

4. (i) Explain the reasons for the shape of the average variable cost and average cost

(04 Mark

(ii) Why are Iso-cost lines straight lines?

(03 Mark

(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 Mark

(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**