EASTERN UNIVERSITY SRI LANKA

FIRST EXAMINATION IN ARTS & CULTURE - 1999/2000

(EXTERNAL DEGREE -DEC 2003 – JAN 2004

ECO 101 PRINCPLES OF ECONOMICS

Answer any Five Questions **Time: 3 Hours**

Briefly explain the following.

01) i Differentiate between Free goods and Economic goods.

ii. What do you understand from constant return to scale?

iii. Differentiate the 'Total Utility ' and 'Marginal Utility '

iv. Define the term ' Equilibrium Price '

v. Give four characteristics of Barter System.

vi. GNP in 2002 Rs.320, 000 million. It grew to Rs. 350,000 in 2003 a economy. But the per capita GNP actually decreased. Is it possible? Explain.

vii. Explain what you understand by 'Opportunity cost'

viii. Define the term 'Economic Globalization'

(20 marks)

02) a. Explain the deference between a movement and a shift in a demand curve.

(06 marks)

b. Distinguish between the income effect and the substitution effect of a product using examples.

(06 marks)

c. Define and explain the concept of price elasticity of demand using examples.

(08 marks)

03) The table below shows the weekly utility function for two types of food a man consumes with a total budget of Rs. 36/=.

Price Quantity	Meat (4/=) Total Utility	Fruit (4/=) Total Utility
1	28	16
2	54	28
3	78	36
4	98	43
5	110	48
6	118	51
7	122	52
8	124	52

Assuming that the consumer wishes to maximise his utility and that he spends all his income on one or with other of these two goods. Answer the following question with the help of the information given in the table.

a. i. Explain briefly the conditions necessary for the consumer to be in equilibrium. (04 marks)

ii. How would this equilibrium be altered by

- a fall in the price of one good.
- a fall in the general price level by a given

(08 marks)

b. Calculate the consumer equilibrium point. (04 marks)

c. Explain the characteristics of a consumer's indifference curve. (04 marks)

04) a. Explain the law of Supply and its condition.

(05 marks)

b. Firm 'X' demand function is given as

$Qd = 1850 - 40p$

Supply function is given as

$Qs = 550 + 60p$

i. Find the equilibrium price and the quantity of the above firm.

(05 marks)

ii. If price changes to Rs. 18/= what would happen to the equilibrium position.

(05 marks)

iii. Calculate demand elasticity when price increase from Rs.19/= to Rs.22/=

(05 marks)

05) Briefly explain

a. What do you understand by the terms 'Personal Incomes' and 'Per capita Income'

b. Differentiate GDP and GNP

c. What do you mean by ' Tax Multiplier'

d. Explain the concept of ' Autonomous Investment '

e. Explain the relationship between MPC and multiplier.

f. Explain what is meant by 'Real National Income '

(20 marks)

06) a. What do you understand by 'Circular flow of income'?

(04 marks)

b. Explain the circular flow of income in a closed economy with a Government sector.

(06 marks)

c. How will the circular flow of income differ in an open Economy?

(10 marks)

07) a. Explain the Economic importance of money in the present economy.

(05 marks)

b. Explain how the Central Bank could control the supply of money.

(05 marks)

c. Discuss the need for controlling " Money supply " in a nation.

(10 marks)

08) "Foreign Direct Investment (FDI) is a major factor in third world countries as a strategy for promoting economic development " analyse this statement paying special attention to Sri Lanka.

(20 marks)