



Eastern University, Sri Lanka
Faculty of Commerce and Management
Special Examination in Business Administration/Commerce 2007/2008
(Special Repeat March -2010)

ECN 1014 Economic Theory

Answer all Question

Time: 03 hours

1. a. What are the basic problems of an economic system? How do they arise due to the scarcity of resources?
(07 Marks)
- c. Explain how the basic economic problems of an economy are solved in a free market economy
(06 Marks)
- d. What is increasing opportunity cost of a commodity? Explain the Reasons for increasing opportunity cost with a diagram
(07 Marks)
2. a. Distinguish between Total Utility and Marginal Utility
(05 Marks)
- b. Explain the Law of Diminishing Marginal Utility
(05 Marks)
- c. You are given the following Demand and supply functions
$$Q_d = 100 - 2P$$
$$Q_s = 10 + 0.5P$$
Which is the price that makes Q_s and Q_d be equal?
(5 Marks)
- d. What are the main determining factors of market demand for a commodity? (5 Marks)
3. a. Explain the three stages of short-run production function with a diagram
(08 Marks)
- b. Explain the relationship between Average cost and Marginal cost in short run with a diagram
(06 Marks)
- c. Explain the short run equilibrium of a perfect competitive firm with a diagram
(06 Marks)

4. a. Explain the circular flow of income in a simple economy with diagram

(08 marks)

c. Briefly explain the main functions of money

(06Marks)

d. Distinguish between a central Bank and a Commercial Bank

(06 marks)

5. Briefly explain the following

a) Comparative advantage

b) Price Elasticity

c) Monopoly power

d) Floating exchange rate

(20marks)
