

Number of Questions	06
Number of Pages	03



University of Sri Jayewardenepura

2011 B. Sc. Business Administration (General) External Degree Part I Examination - May 2014

BME 1502- Economics for Managers

Time: Three (03) hours

Instructions

This question paper consists of 06 (Six) questions

Answer only five (05) questions including at least two questions from each part

Part I

Question No 01

- i) What is Production Possibility Curve (PPC)? Why PPC slopes downward? Explain by using a graph. (05 marks)
- ii) Suppose you will be spending from your daily income Rs 200.00 on two commodities, chocolate (X) and ice-cream (Y). The price of chocolate is Rs 20.00, and the price of an ice-cream is Rs 40.00. Your marginal utility (MU) schedules of consuming these two commodities are given below.

Quantity	MU _X	MU _Y
1	120	200
2	100	160
3	80	120
4	60	80
5	40	40
6	20	-40
7	-20	-80

- (a) If you consume three chocolates and four ice-cream, what is your total utility (TU) gained by consuming these commodities? (02 marks)
- (b) Find the commodity bundle of X and Y that maximizes the utility. (05 marks)
- (iii) (a) "Two intersecting straight line demand curves have different elasticity's at the point of intersection" Do you agree with this statement. Explain. (05 marks)
- (b) "Price elasticity of demand is not the inverse of the slope." Describe. (03 marks)

(Total marks 20)

Question No 02

- (i) Using the following data, the identify different stages of production and returns to scale.

Units of labor:	1	2	3	4	5	6	7	8
Units of output:	2	6	12	16	18	18	14	8

(10 marks)

- (ii) Define marginal rate of technical substitution (MRTS). Why does it decrease along the iso-quant? Explain your answer with a suitable graph.

(05 marks)

- (iii) Suppose a total cost function is given as,

$$TC = 1850 + 1500Q - 160Q^2 + 10Q^3.$$

Based on this equation, construct the equations for TVC, AC, AFC, AVC and MC.

(05 marks)

(Total marks 20)

Question No 03

- (i) What is meant by a firm's equilibrium?

(02 Marks)

- (ii) Assume that you are a manager of a monopoly firm. The demand and cost functions of this company are given by $P = 200 - 2Q$ and $TC = 2000 + 3Q^2$, respectively.

- (a) What is the firm's equilibrium price and quantity?
(b) Calculate the maximum profit or loss at this equilibrium.
(c) Find the price elasticity of demand at this equilibrium.

(10 marks)

- (iii) Under perfect competition, average revenue (AR) equals average cost (AC) in the long run equilibrium of a firm. Why do firms operate under this condition?

(03 Marks)

- (iv) (a) Draw a diagram to illustrate the supply curve and the shutdown point of a perfect competitive firm in the short-run.

- (b) Using the following total cost function, calculate the level of output at which the firm's shut down point.

$$TC = 1350 + 750Q - 16Q^2 + Q^3$$

(05 marks)

(Total marks 20)

Part II

Question No 04

- (i) Explain different phases in the business cycles. (05 marks)
 - (ii) Explain the reasons that affect the demand for money with examples. (05 marks)
 - (iii) Explain cost push inflation by using a graph. (05 marks)
 - (iv) How does Keynesian aggregate supply curve is different from Classical aggregate supply curve? Explain the reasons. (05 marks)
- (Total marks 20)

Question No 05

- (i) Explain how structural unemployment occurs. Explain reasons. (04 marks)
 - (ii) Explain the economic impacts of following incidents to the macro economy. Use IS-LM model for explanations.
 - (a) An increase of government spending
 - (b) An increase of money supply(08 marks)
 - (iii) Briefly explain the comparative advantage theory in international trade. (04 marks)
 - (iv) Explain the Phillips' Curve using a diagram. (04 marks)
- (Total marks 20)

Question No 06

You have been given the following functions of a hypothetical economy. (Values are given in Rupees in million.)

$C = 3450 + 0.5 Y_d$	(Consumption function)
$I = 1300 - 80i$	(Investment function)
$G = 900$	(Government spending function)
$Tr = 450$	(Transfer payments function)
$T_x = 300 + 0.2 Y$	(Tax function)
$L = 0.4 Y - 150i$	(Money demand function)
$M = 1200$	(Real money supply function)

- Based on the above information;
- (i) Construct the aggregate expenditure function. (06 marks)
 - (ii) Calculate tax and money multipliers. (02 marks)
 - (iii) Calculate equilibrium level of income and interest rate when goods and service market and money market are in operation. (08 marks)
 - (iv) Calculate the new equilibrium national income and interest rate when real money supply is increased to Rs 1350 million. (04 marks)
- (Total marks 20)
