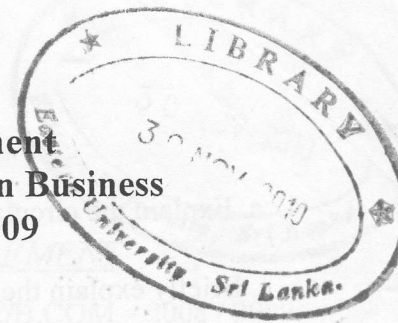


**Eastern University, Sri Lanka**  
**Faculty of Commerce and Management**  
**First Year Second Semester Examination in Business**  
**Administration/Commerce 2008/2009**  
**(Repeat Sep -2010)**



**ECN 1214 Economic Theory**

Answer all Question

Time: 03 hours

- 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)

- a. Distinguish between Total Utility and Marginal Utility (05 Marks)
- b. You are given the following Demand and supply functions

$$Q_d = 20 - P$$

$$Q_s = 2P$$

- i. Which is the price that makes  $Q_s$  and  $Q_d$  be equal?  
ii. Calculate the consumer surplus and Producer surplus (10 Marks)
- c. What are the main determining factors of demand elasticity for a commodity? (5 Marks)

3. a. Explain the 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 (06Marks)
- 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 (06 marks)

d. Explain the Main function of central Bank in Sri Lanka (06 marks)

5. Briefly explain the following

a) Marginal Rate of Substitution

b) Shift in a demand curve

c) Comparative advantage

d) Monopoly power (20 marks)

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