

**Eastern University, Sri Lanka**  
**Faculty of Commerce and Management**  
**First Year Second Semester Examination in BBA/BCom -2017/18 (Proper)**  
**(July 2019)**  
**ECN 1013 Microeconomics**

Answer all Questions in Part I and Part II

**Time: 03 Hours**

**Part I**

Write the appropriate answer in the answer sheet

*Choose the suitable option*

i. Who has given scarcity definition of Economics?

- a. Adam Smith                      b. Marshall                      c. Lionel Robbins                      d. Robertson

ii. Which of the following is an economic activity?

- a. Teaching of a teacher in the school                      b. To teach son at home  
c. To serve her child by mother                      d. To play football with friends

iii. Farmers can plant either corn or soybeans in their fields. Which of the following would cause the supply of soybeans to increase?

- a. an increase in the price of soybeans  
b. a decrease in the price of corn  
c. an increase in the demand for corn  
d. an increase in the price of soybean seeds

iv. The purpose of a price ceiling is to

- a. help producers by setting a minimum legal price for a product.  
b. create a surplus of the product to be saved for future use.  
c. help consumers by lowering the legal price of the product.  
d. ensure enough of the product is produced to fully meet demand.

v. The demand for movies is unit elastic if

- a. any increase in the price leads to a 1 percent decrease in the quantity demanded.  
b. a 5 percent increase in the price leads to a 5 percent decrease in the quantity demanded.  
c. a 5 percent decrease in the price leads to an infinite increase in the quantity demanded.  
d. a 5 percent increase in the price leads to a 5 percent increase in total revenue.

vi. If the income elasticity of a demand for a good is negative, then the good is:

- a. a luxury good
- b. an Inferior good
- c. a normal good
- d. a giffen good

vii. Marginal utility is the...

- a. relative value of two goods when a utility-maximizing decision has been made
- b. change in total utility that results from increasing the amount of a good consumed one unit.
- c. change in the amount of a good consumed that increases total utility by one unit
- d. utility obtained from the consumption of all but the last unit of a good.

viii. Average productivity will fall as long as

- a. Marginal productivity is falling.
- b. It exceeds marginal productivity.
- c. It is less than marginal productivity.
- d. The number of workers is increasing.

ix. Marginal revenue is equal to price for which one of the following types of market structure?

- a. Monopoly
- b. Perfect competition
- c. Monopolistic competition
- d. Oligopoly

x. Monopolies arise for all the following reasons EXCEPT:

- a. patents
- b. copyrights
- c. control of inputs such as oil or rare metals
- d. decreasing returns to scale

***State True or False***

xi. Tennis racquets and tennis balls are likely to have a positive cross-elasticity of demand.

- a. True
- b. False

xii. A monopoly is a market structure in which there is not only one producer for a product.

- a. True
- b. False

xiii. Price discrimination refers to charging different prices for different products in different markets.

- a. True
- b. False

xiv. A rise in marginal physical productivity or in the value of any goods and services produced will tend to raise the marginal revenue product of labour.

- a. True                      b. False

xv. If medicine is a necessity, the burden of a tax on medicine will probably fall more heavily on the buyers of medicine

- a. True                      b. False

**Fill in the blanks with appropriate word**

xvi. Marginal product is the change in total product resulting from unit change in.....

xvii. If the demand for a good is price inelastic, an increase in its price will ..... total revenue in that market

xviii. The cost associated with resources acquired during the production period is called.....

xix. The total utility from consuming five slices of pizza is 11, 18, 24, 29, and 32 units respectively. The marginal utility of the third slice of pizza is .....

xx. We use the concept of.....to study the effect of proportional increase in all inputs on the level of output produced,

**(Total 20\*2=40 Marks)**

**Part II**

i. "Cardinal measurability of utility is unrealistic." Briefly explain.

(3 Marks)

ii. Derive the Engle curve for the inferior good.

(3 Marks)

iii. Briefly explain the properties of indifference curve.

(4 Marks)

iv. The table below contains information about the total utility Jerry gains from coffee he buys from the Corner Shop.

Cups of coffee	1	2	3	4	5
Total Utility	1.50	2.70	3.60	3.60	2.00

Does this example exhibit the principle of Diminishing Marginal Utility? Explain.

(Total 10)

- 03) i. Briefly explain the relationship between Marginal Production (MP) and Marginal Cost (MC).
- ii. According to the Cobb-Douglas production function, marginal product of a factor depends on amount of inputs used in production. Prove.
- iii. Graphically show the expansion path in the long run production.
- iv. You are given the following production function:  $Q = L^{0.75} K^{0.25}$   
Find the Marginal Product of Labour ( $MP_L$ ) and Average Product of Labour.

(Total 10)

- 04) i. Briefly explain the shutdown and breakeven point in the short run perfect competition market.
- ii. Graphically show how monopolist exploits consumer surplus.
- iii. The total revenue and total cost of a firm are given by the below equation,  
 $R = 60Q$                        $C = 10 + 5Q^2$  ( $Q = \text{output}$ )  
Calculate the profit maximising output and total profit of the firm.

(Total 10)

- 05) i. Graphically illustrate the dead weight losses of consumer and producer surplus when a government tax is imposed.
- ii. Briefly explain four methods used to measure the elasticity of demand.

(Total 10)