EASTERN UNIVERSITY, SRI LANKA

THIRD EXAMINATION IN SCIENSE 2002/20043 (APRIL / MAY 2004)

(RE REPEAT)

OC 301 ECONOMICS II

Answer **Five** questions selecting at least **Two** from each part

Time – 03 Hours

PART 1

1. Consumer 'A's marginal utility function for 'X' and 'Y' commodities are given below.

   MUX = 46 – 4x

   MUY = 22.5 – 3y

   His disposable income in Rs. 102/-

   Px = RS. 2/-

   Py = 1.50/-

   a. If he spends the whole of his income on purchasing these two commodities determine the X, Y contribution that will maximum his utilities.

   (08marks)

   b. Derive the demand curve for commodity "Y".

   (06marks)

   c. Critically analyze the partical use of the above demand curve.

   (06marks)

2. a. Explain the difference between a movement and a shift in a demand curve.

   (06marks)

   b. Distinguish between the income effect and the substitution effect on a decrease in the price of a product?

   (08marks)

   c. Define the concept of price elasticity of demand using numerical examples.

   (06marks)

3. The Rohan electrical company manufactures electrical kettles incurring fixed co 500/- and total costs as shown in the following table.

Output	TC	TFC	TVC	AC	AFC	AVC	MC
0	500						0
1	540						
2	680						
3	750						
4	925						
5	1200						
6	1602						

a. Complete the table.

(05

b. Plot the MC and AC curves in a graph paper and explain the relationship b them.

(05

c. Calculate the output and the profit when the ruling market price of kettle is 325/

(04

d. Explain the distinction between short run and long run cost of production.

(06

5. a. Explain the relationship between short run average and marginal product curves using appropriate diagrams.

(09

b. Explain how the long run average cost curve in determined.

(06

PART 2

4. You are given the following information with regard to an economy. Assume th economy is closed. Savings Function is $= -30 + 0.2sy$

a. Show the consumption equation and find the equilibrium level of income.

(05m

b. If private investment is Rs. 125 million and government expenditure Rs. 350 mi What be the new equilibrium level of income?

(05m
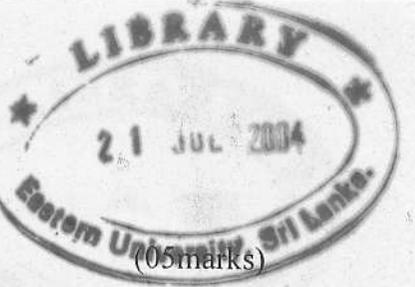
c. If the tax function is T= 0.2Y. What is the new equilibrium level?

(05marks)

d. If government expenditure is increased by 40%. What are changes that will take place in the aggregate economy?

(05marks)

6. a. Distinguish and explain wage push inflation and demand pull inflation.

(10marks)

b. How inflation are controlled. Explain.

(05marks)

7. a. what do you understand by circular flow of income ..

(04marks)

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

(06marks)

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

(10marks)

8. Briefly explain

a. What do you understand by the terms "personal income" and "disposal income".

b. Differentiate GDP and GNP.

c. What do you mean by "Tax multiplier".

d. The concept of "Induced Investment".

e. The relationship between MPC and multiplier.

f. What is meant by "Real National Income"

(20marks)