EASTERN UNIVERSITY, SRI LANKA
FACULTY OF COMMERCE AND MANAGEMENT
First year/ Second Semester Examination in Bachelor of Business Administration /
Bachelor of Commerce
Proper 2002/03

ECN. 1013 - Economic Theory

Answer all Questions

Time : 3 Hours

Part I

1.

1. The problem of choice between the various uses of resources arises because
   a. Resources are scarce
   b. Resources have alternative use
   c. Productivity of scarce resources various in their alternative use and producers want to maximize their profit

2. Which of the following statement is true?
   a. The desire for a commodity backed by ability and willingness to pay is demand
   b. The demand for a commodity is inversely related to the price of its substitutes
   c. Demand for car and price of petrol are inversely related.

3 When total utility increases, marginal utility is
   a. Negative and increasing.
   b. Negative and declining.
   c. Positive and declining.

4. At the equilibrium, the slope of the indifference curve is
   a. Greater than the slope of the budget line.
   b. Equal to the slope of the budget line.
   c. Smaller than the slope of the budget line.

5. The law of diminishing returns implies that
   a. Quantity of an input is increasing.
   b. Quantity of an input is decreasing.
   c. Quantity of an output is decreasing

6. Consider the cost function $C = 10 + 2Q + Q^2$ and $P = 22$, the profit is maximum when the output is
   a. 20 Units.
   b. 10 Units.
   c. 8 Units.

7. The MC curve intersects the AVC curve and the AC curve at their minimum point. The above statement is true.
    a. Always.
    b. Never.
    c. Sometime.

8. Which of the following statements is correct?
    a. A firm is a price – maker under perfect competition.
    b. Under perfect competition a firm fixed its price where its AR = MR.
    c. Free entry and free exit is a major characteristic under monopoly.

9. Which of the following is not an important use for national income accounting
    a. it makes possible an estimate of the output of final goods and services in the economy.
    b. it permits measurement of the economic efficiency of the economy.
    c. It enables the economists to chart the growth or decline of the economy over a period of time.

10. GDP in an economy is $ 3,452 billion. Consumer expenditure are $ 2,343 billion, government purchases are $ 865 billion, and gross investment is $378 billion. Net export are
    a. -$ 135 billion
    b. $ 93 billion
    c. $ 123 billion

(2x10 Marks)

Part II

2. i. What constraints does the consumer face in seeking to maximize the total utility from personal expenditure?

(5 Marks)

ii. Express and explain mathematically the conditions for consumer equilibrium.

(5 Marks)

iii. The following Table shows an individual marginal utility for commodity X and Y. Suppose the price of commodity X and commodity Y are 10 rupees and the consumer's income is 80 rupees per week. He/she spent entire income on the two commodities.

Q	1	2	3	4	5	6	7	8
MUx	11	10	9	8	7	6	5	4
MUy	19	17	15	13	12	10	8	6

a. Calculate how the consumer spend the income in order maximize the total utility.
b. What is the total utility received by the consumer

(10 Marks)

3. i.   Explain the various type of business organizations.

    ii.   Explain why AC curve and AVC curve come closer when output increases.

    iii. What do you understand by iso-quant and marginal rate of technical substitution?

    iv.   Consider the following Cobb – Dauglus production function

          $$Q = K^{0.25} . L^{0.5}$$

          Determine the function exhibits increasing, constant and decreasing return to scale.

          (4x5 Marks)

4. i.   Briefly state the basic difference between the monopololy and perfect competitive firm?

    ii.   Distinguish between monopolist excess profit equilibrium and competitive firm's excess profit equilibrium in short run.

    iii. What are the sources that might create various types of monopoly?

    iv.   Do you agree that perfect competition leads to optimum level of output in the Short run.

          (4x5 Marks)

5. i.   Explain the circular flow of income.

          (5 Marks)

    ii.   Explain three sector model of circular flow of income and the assumptions of the model

          (10 Marks)

    iii. How you can overcome the disequilibriam situation in the circular flow of income model

          (5 Marks)