

EASTERN UNIVERSITY, SRI LANKA
FACULTY OF COMMERCE AND MANAGEMENT
Second Year First Semester Examination in 2005/2006 (August 2007)
ECN 2114 Advanced Micro Economic Theory

Answer all questions

Time : 03 Hours

1) 1. What is utility? Distinguish marginal utility from total utility.

(3 Marks)

11. The following table gives two different utility schedules of an individual.

| Combination | U1 | | U2 | |
|-------------|----|----|----|----|
| | Qx | Qy | Qx | Qy |
| A | 3 | 12 | 6 | 12 |
| B | 4 | 7 | 7 | 9 |
| C | 6 | 4 | 9 | 6 |
| D | 9 | 2 | 12 | 4 |
| E | 14 | 1 | 15 | 3 |

- Using a graph paper, plot the two indifference curves on the same set of axis.
- Suppose consumer's income is Rs. 10 and $P_y = P_x =$ Rs. 1, draws the budget line on the same graph sheet.
- How much of X and Y should he or she purchase to be at the optimum level?

(6 Marks)

111. The indifference curve between a good and garbage is positively sloped.

True or False? Why?

(3 Marks)

IV. Separate the substitution effect from the income effect for a decrease in the price of an inferior good.

(8 Marks)

2) 1. Explain what is meant by

- a) Increasing returns to scale
- b) Decreasing returns to scale.

(6 Marks)

11. Illustrate the expansion path in producer equilibrium

(6 Marks)

111. A soap producing company has the following variable cost function,

$$TVC = 100q - 3q^2 + 0.5q^3$$

If the company's fixed cost is equal to Rs. 30 million:

- calculate
- a) Total Cost
 - b) Marginal cost
 - c) Average variable cost
 - d) Average total cost.

(8 Marks)

3) 1. "Labour demand is a derived demand" Explain.

(4 Marks)

11. What are the factors that affect labour demand?

(8 Marks)

111. Explain the tradeoff between leisure and work through labour supply analysis.

(8 Marks)

4) 1. Differentiate perfect competition and Monopoly.

(6 Marks)

11. Whether price discrimination of a monopoly market structure socially beneficial or not? Analyze.

(8 Marks)

111. "In short run, marginal cost curve of a competitive firm is also its supply curve"
Explain with suitable diagrams.

(6 Marks)

5) Give brief explanation for the followings:

- I. Isoquant and Marginal Rate of Technical Substitution
- II. Long run Average Total Cost and Returns to Scale
- III. Price rigidity and kinked demand curve

(20 Marks)