(16) 90220

THE OPEN UNIVERSITY OF SRI LANKA
BACHELOR OF MANAGEMENT STUDIES (HONOURS) DEGREE PROGRAMME
LEVEL : 05
MCU3207/MSU5507: Managerial Economics
Final Examination- 2019
DURATION – Three (03) HOURS

DATE: 12th January 2020 **TIME: 1 .30 p.m. – 4.30p.m.**

INSTRUCTIONS:

- *Answer any four (04) questions. All questions carry equal marks.*
- *Use of non-programmable calculator is allowed.*

Question No. 01

A) " It order to be competitive and also to survive, it is necessary for the firms that operate in modern day dynamic world to pursue not only economic objectives, but also non-economic objectives". Elaborate with examples. **(08 Marks)**

B)"In calculating profit of a firm, an accountant only considers out of pocket expenditure".

i. What is meant by "out of pocket expenditure"? Explain with Examples.

ii. The definition of cost is quite different for an economist than for an accountant. How would an economist differ from an accountant, in calculating profit of a firm? Explain with an example.

iii. What are the two critically important roles the profit plays in a market economy? Explain. **(08Marks)**

C)i. Use the demand equation given to fill in the table below, consider quantity from unit 1 to Unit 6.

Q = 48 - 0.25p **(Q – Output, P - Price)**

Quantity	Price	Total Revenue (TR)	Average Revenue (AR)	Marginal Revenue (MR)
1				

ii. Using the demand equation given above, find the revenue maximizing price and output.

ii. If the total cost function is given as, $TC = 480 + 2Q^2$, find the profit maximizing price, output and calculate the maximum profit that can be made. **(09 Marks)**

Question No.02

A) i. What are the determinants of Price Elasticity of Demand of an item? Explain.

ii. The demand equation of a good is given as;

$Q_d = 128 - 8p$ (Q – quantity in units, P – price in Rupees)

Calculate the Price Elasticity of Demand at price Rs.10/=. If the firm is to increase the revenue generated from the given good, should the price be increased or decreased? Explain using illustrations. **(07 Marks)**

B) Do you "agree" or "disagree" with the following statements? Explain your answer providing examples where possible.

i. The lower the cost of production, the more inelastic is the Price Elasticity of Supply of the given good.

ii. The shorter the time available, the higher is the Price Elasticity of Supply.

iii. The value of Cross Price Elasticity of Demand between "Seven Up" and "Sprite" is very high. **(12 Marks)**

C) "The Income Elasticity of Demand for a firm's product is an important determinant of the firm's success at different stages of business cycle" Elaborate with examples. **(06 Marks)**

Question No. 03

A) Should the time encompassing the long run production of two different industries, for example "Garment" and "Oil" be the same? Explain. **(05 Marks)**

B) Consider the short run production function given below.

Q_L	TP_L	AP_L	MP_L	MR	MRP_L
1	02				
2		04			
3			13		
4	32				
5		08			
6			02		
7			00		
8		05			

Q_L- Quantity of Labour TP_L-Total Product of Labour AP_L- Average Product of Labour MP_L-Marginal Product of Labour, MR-Marginal Revenue, MRP_L- Marginal Revenue Product of Labour.

Unit price of the product = Rs. 400/-, Wage rate of a labourer = Rs. 3200/-

i. Fill in the table and identify the stages of production. Explain your answer with illustrations.

ii. What stage should the rational entrepreneur select? Why? Explain.

iii. How many workers should a profit maximizing firm employ? Explain.

(13 Marks)

C) How could the knowledge in relation to concepts "Breakeven Analysis" and "Degree of Operating Leverage" helps a manger in business decision making? Explain. **(07 Marks)**

Question No. 04.

A) If the demand and supply equations of a perfectly competitive industry are given as; $Q_D = 14{,}400 - 80p$ and $Q_S = -10{,}800 + 120p$, how could the firms operate in the given industry determine their price and output? Explain using illustrations. **(06 Marks)**

B) i. What is the short run supply curve of a Perfectly Competitive firm? Explain using illustrations.

ii. "Perfectly Competitive firm that makes economic losses in the short run must cease its operations." Do you agree? Explain using illustrations. **(09 Marks)**

C) i. Being the only firm in the industry, could a Monopolist determine both its price and output at the same time? Explain using illustrations.

ii. Compared to Perfect Competition, there is a social cost under Monopoly." Do you agree? Explain using illustrations. **(10 Marks)**

Question No. 05.

A) Explain whether you "agree" or "disagree" with the following statements. Provide illustrations where possible.

i. Monopolistically Competitive firms achieve maximum efficiency in the long run.

ii. "Kinked" demand curve model is useful in explaining price, quantity stability that prevails in Oligopolistic markets.

iii. Oligopoly markets in which the firms that cooperate determine their price and output similar to a Monopoly. **(18 Marks)**

B) Using examples explain how Monopolistically Competitive and Oligopolistic firms use non-price methods to compete. **(07 Marks)**