THE OPEN UNIVERSITY OF SRI LANKA
COMMONWEALTH EXECUTIVE MASTER OF BUSINESS/PUBLIC
ADMINISTRATION PROGRAMME
FINAL EXAMINATION – 2021 SEPTEMBER
MCP2605/ MSP 9305 – MANAGERIAL ECONOMICS
DURATION: THREE (03) HOURS (ANSWERS SHOULD BE COMPLETED AND
UPLOADED WITHIN THREE (03) HOURS)

DATE: 26.09.2021   **TIME: 9.30 am- 12.30 pm**

Answer all the four (04) questions; each carries equal marks (25 Marks)
Use of non-programmable calculator is allowed.

Question No.1

a) Providing examples, critically analyze the relevance/usefulness of the leading theories of firm in making effective business decisions, given the enormous constrains created by Covid – 19 pandemic.   **(12 Marks)**

b) What is meant by "Asymmetric Information"? How would asymmetric information affect managerial decisions? Explain using an example.   **(06 Marks)**

c) The following equations provide the relationship between advertising expenditure (**A**) and the level of sales(**S**) of a firm operating in two different regions.(Figures in Rs. Million)

$S_1 = 16 + 4A_1 - 0.5A_1^2$ (Region one) $S_2 = 10 + 5A_2 - 1.5A_2^2$ (Region two)

   i. To maximize sales how much should the firm spend on advertising in each region?

   ii. Prove that your answer to part (i) is to maximize sales rather than minimize.

   iii. Would you recommend the firm to maximize sales? Why or why not? Explain.

                                                              (07 Marks)

Question No.2

Providing examples and illustrations, where appropriate explain whether you "agree" with the following statements.

a) "The management may be tempted to increase the price, when the cost of production of the given item increases. However the effectiveness of this move depends on the nature of elasticity of the respective good".   **(06 Marks)**

b) "The bargaining power of trade unions in raising wages largely determined by the elasticity of demand for the particular labour services provided by their members"

                                                              (07 Marks)

c) "When imposing a new tax or increasing existing taxes it is important for the authorities to consider the nature of elasticity of demand for the given good"   **(06 Marks)**

d) "Elasticity of Demand for and Supply of health services is useful in explaining shortage of hospital beds that generally exist in government hospitals"   **(06 Marks)**

Question No.3

a) **i.** On what basis a profit maximizing firm employ the variable factor in the short run, if the variable factor is Labour? Would the same condition applies, if the variable factor is Capital, instead of labour? Explain. **(06 Marks)**

ii. Total Production function of a firm given as; $Q = 120L - 2L^2$ (Q – The output per day, L – Number of workers hired per day). If the daily wage rate is Rs.2000/=, and the price of the item is Rs.500/=, how many workers should the profit maximizing firm hire? **(05 Marks)**

b) **i.** Would the free entry and exit in the Perfectly Competitive markets help these firms in achieving maximum economic efficiency in the long run? Explain. **(07 Marks)**

ii. The total viable cost of Perfectly Competitive firm is given as;
$TVC = 240Q - 20Q^2 + Q^3$; if the current market price of the given item is Rs.130/=, could the firm continue to produce? Explain. **(07 Marks)**

Question No.4

a) **i.** "Downward sloping demand curve of a Monopolist gives scope for the firm to engage in price discrimination" Do you agree? Explain. **(07 Marks)**

ii. Suppose a firm has two different groups of clients and the demand equation for each group is given as; $Q_A = 400 - 20P$ $\qquad$ $Q_B = 350 - 5P$
Firms cost function is given as; $TC(Q) = 10Q_T$ $\qquad$ $(Q_T = Q_A + Q_B)$
Could the firm make a higher profit when engaging in third degree price discrimination or charging a single price? Explain using calculations. **(08 Marks)**

b) "Even though the paddy market seems to have characteristics of Perfectly Competitive Market, currently it operates as an Oligopoly inSri Lanka" Elaborate. (Use illustrations where possible) **(10 Marks)**

-Rights Reserved -