

THE OPEN UNIVERSITY OF SRI LANKA
DEPARTMENT OF SOCIAL STUDIES
BA DEGREE IN SOCIAL SCIENCES /

1256



LEVEL 3

FINAL EXAMINATION – 2021/2022 (1st Semester)

DSU3531 - PRINCIPLES OF ECONOMICS I

DURATION: THREE HOURS (03 HOURS) ONLY

Date: 11/06/2022

Time: 9.30 a.m.-12.30 p.m.

Instructions:

- Answer five (05) questions ONLY. Each question carries twenty (20) marks.
- Use of non-programmable calculators is allowed. No mobile phone calculators are allowed.
- Please write clearly. Show all your workings properly.

01.

- a) “The problem of scarcity is common to both developed as well as developing countries”. Examine this statement with suitable examples.
- (10 marks)

- b) Using your conceptual knowledge in Economics, briefly explain two (02) economic reasons that resulted the current economic crisis in Sri Lanka.
- (10 marks)

02.

- a) Describe the key features of the different economic systems that you can see in countries.
- (10 marks)

- b) Using a production possibility curve, illustrate how scarcity, efficiency and under-utilization of resources can be depicted.
- (10 marks)

03. What would happen to the supply of mangoes in the following scenarios? Explain using diagrams for each.

(5 marks each)

- a) An increase in wages paid to workers
- b) A new machine is introduced to pick mangoes which increases efficiency
- c) Producers assume that prices of mangoes will fall
- d) There is a sudden early monsoon before mangoes are harvested

- 04.
- Distinguish between total utility (TU) and marginal utility (MU). (10 marks)
 - Graphically explain the theory of diminishing marginal utility. (10 marks)
05. Assume the following in a hypothetical economy. (4 marks each)
- Consumption = $100 + 0.8Y_d$
Investment = 100
Government expenditure = 200
Taxation = $0.25Y$
Exports = 150
Imports = $0.2Y_d$
- Calculate the equilibrium level of national income.
 - Find the surplus or deficit in the budget at the equilibrium income.
 - Estimate the balance of trade at the equilibrium income.
 - Derive the savings function.
 - Compute the income multiplier
06. Examine the approaches to national income computation. (20 marks)
- 07.
- Name the different phases of a business cycle. (5 marks)
 - Explain two phases of a business cycle. (15 marks)
- 08.
- Explain the harmful effects of inflation. (10 marks)
 - In your opinion suggest two (02) ways in which inflation can be controlled. (10 marks)
09. Write short notes on any **four (04)** of the following using graphs/diagrams and examples wherever necessary.
- Phillips curve
 - Cyclical unemployment
 - Perfectly inelastic demand
 - Gross Domestic Product (GDP)
 - Indifference curve
 - Budget line