

THE OPEN UNIVERSITY OF SRI LANKA  
 DEPARTMENT OF SOCIAL STUDIES  
 BA DEGREE IN SOCIAL SCIENCES - LEVEL 03  
 FINAL EXAMINATION – 2021/2022 (2<sup>nd</sup> Semester)  
 DSU3532 – PRINCIPLES OF ECONOMICS II  
 DURATION: THREE HOURS (03 HOURS) ONLY



Date: 27<sup>th</sup> of January 2023

Time: 09.30 a.m. – 12.30 p.m.

**Instructions:**

- Answer ONLY five (05) questions out of nine (09)
- Each question carries equal marks.

1. Answer all questions. Each question carries 5 marks.

- i. What is a production function?
- ii. Distinguish between explicit costs and implicit costs in the production process.
- iii. What is meant by normal profit?
- iv. Briefly explain two goals of business firm.

(5x4 = 20 Marks)

2.

- a) What are the characteristics of a monopoly market? (8 Marks)
- b) Discuss the major barriers to entry into the monopoly market. (12 Marks)

3.

- a) Describe how the entry and exit of firms in perfect competition market bring about long-run equilibrium. (10 Marks)
- b) Explain the advantages and shortcomings of a perfectly competitive market. (10 Marks)

4.

- a) Compare and contrast the characteristics of monopolistic and perfect competition market structures. (10 Marks)
- b) Does the product differentiation in monopolistic competition make us better or worse off? Explain. (10 Marks)

5.

- a) What are the characteristics of competitive factor market? (8 Marks)
- b) Distinguish the characteristics of factor markets with monopsony power and monopoly power. (12 Marks)

6.

- a) Briefly explain characteristics of money. (10 Marks)
- b) Discuss barter system of payments and its weaknesses. (10 Marks)

7.

- a) Briefly explain financial intermediaries and how they can help economies to allocate financial resources efficiently. (10 Marks)
- b) Why are commercial banks different from other financial institutions? (05 Marks)
- c) Why Should commercial banks be regulated by the Central Bank? (05 Marks)

8.

- a) Briefly explain the two (02) objectives of Central Bank of Sri Lanka. (8 Marks)
- b) Briefly explain how the monetary policy can be used to maintain price stability. (12 Marks)

9. Write short notes on **any four (04)** of the following.

- i. Characteristics of public goods
- ii. Macroeconomic implications of a budget deficit
- iii. Externalities in production and consumption
- iv. Difference between direct quote and indirect quote
- v. Functions of money
- vi. Impacts of depreciation of a currency
- vii. Characteristics of perfect competition
- viii. Price making and Price taking

(5x4 = 20 Marks)

\*\*\*\*\**Copyrights Reserved*\*\*\*\*\*