

THE OPEN UNIVERSITY OF SRI LANKA
 COMMONWEALTH EXECUTIVE MASTER OF BUSINESS/PUBLIC
 ADMINISTRATION PROGRAMME
 FINAL EXAMINATION – 2023 MARCH
 AFP9405/MSP1605 – ECONOMIC ENVIRONMENT OF BUSINESS
 DURATION: THREE (03) HOURS



DATE: 05.03.2023

TIME: 9.30 AM – 12.30 PM

Answer any five (05) questions. All questions carry equal marks (20 marks)

Question No.01

- A) "Externalities could result in either over or under allocation of resources where government intervention may be called upon to ensure economic efficiency" Elaborate this statement, providing an example each for a market in which over allocation and under allocation of resources take place. Use illustrations to explain your answer. (08 Marks)
- B) Using the knowledge in "Concept of Elasticity" answer the following, where possible use illustrations to explain your answer.
- How would the increase in demand for potatoes affect the market price and quantity in the immediate market period, in the short run and in the long run?
 - Why has the domestic tomato growers found, conducive weather conditions that prevailed in the country has resulted in a drop in their revenue?
 - An academic board of an education institute increased the course fee of its foreign degree by 10% resulting in a decline in the number of enrollments in the programme. Yet, the revenue generated through the same increased. What could be the reason for this? (12 Marks)

Question No. 02

- A) i. How could firms achieve economic efficiency? Explain (04 Marks)
 ii. Could achieving long run equilibrium in pure competition ensure efficient allocation of resources? Explain using illustrations. (06 Marks)
 iii. Purely competitive firms producing cucumber found that its price exceeds the marginal cost of Production. What adjustment should these firms make to their joint output to ensure allocative efficiency? Should it be increased or decreased? Explain. (05 Marks)
- B) If a Monopolist operates in the inelastic region of its demand could it maximize its profit? If not, how could the firm ensure maximum profit? Explain using illustrations. (05 Marks)

Question No. 03

- A) "The theory explains that firms in Monopolistically Competitive markets earn only normal profit in the long run. Yet, ability of some firms to differentiate their product which rivals could not duplicate may make it possible for such firms to earn above normal profit in the long run." Do you agree? Explain your answer using illustrations where appropriate. (08 Marks)
- B) i. Firms in Oligopoly markets tend to engage in "Price Wars", especially under recessionary conditions. What is meant by a price war? Explain using an example. (05 Marks)

- ii. "Considering the current domestic macroeconomic conditions, it may not be possible to expect prices in oligopoly markets to remain rigid as the kink demand curve theory suggests" Do you agree? Explain. (07 Marks)

Question No. 04

- A) "In creating stable macroeconomic conditions, the ultimate aim of monetary policy should not simply be to keep domestic inflation rate low, but to encourage investments, thus enhancing the productive capacity of the economy" While highlighting the impact of higher rate of interest on Aggregate Demand of the economy, explain whether you agree with the given statement. (10 Marks)
- B) With a view to reducing the budget deficit, the government of Sri Lanka drastically increased the tax rates. Using Aggregate Demand and Aggregate Supply framework explain the impact of the said move. (05 Marks)
- C) Using AD/AS framework explain how the following changes affect the average price level and the real output in an economy. (Provide illustrations).
- Sharp increase in the price of oil, and also the cost of energy.
 - Introduction of expansionary monetary policy, at a time when the economy operates well below the full employment level of output. (05 Marks)

Question No. 05

- A) "Free Trade promotes economic growth, yet countries tend to erect visible/invisible, tariff/non-tariff barriers that hinders the free flow of goods and services across borders"
- What are the widely used tariff/non-tariff trade barriers in international trade? Explain using illustrations where possible. (07 Marks)
 - Analyze the validity of frequently presented arguments for protectionism. (06 Marks)
- B) "Economic integration can take a variety of forms reflecting different degree of closeness" Do you agree? Explain with examples. (07 Marks)

Question No. 06

- A) "In general, when the currency movement is less volatile, it encourages the international trade." Taking the behavior of the "Fixed" and the "Flexible" exchange rate systems into account, explain whether you agree with the above. (06 Marks)
- B) "The government may see that the exchange rate as being too important to be left to the free market, and thus intervene, may be resorting to managed floating mechanism." Taking the behavior of the Sri Lankan Rupee, especially against the USA Dollar, during the past couple of years into account, discuss the appropriateness of the given statement. (08 Marks)
- C) Using illustrations explain how the Sri Lankan rupee behave against Japanese Yen under floating exchange rate mechanism, when;
- The rate of interest in Japan is lower relative to that of Sri Lanka.
 - There has been a drastic increase in Japanese income level relative to Sri Lanka. (06 Marks)

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Question No. 08

- A) i. Why is the "Economic Growth" a widely held macro goal and what are the two major ways the economic growth of a country is measured? Explain. **(04 Marks)**
- iii. What are the major determinants of economic growth and identify the major public policies that can be effectively implemented in enhancing growth of a country? Explain. **(06 Marks)**
- iv. What are the costs associated in achieving rapid economic growth? Explain. **(03 Marks)**
- B) How "Economic Development" is differs from "Economic Growth" and what are the major factors that hinder developing countries from achieving satisfactory development? Explain while highlighting the sources of economic development. **(07 Marks)**

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