061

THE OPEN UNIVERSITY OF SRI LANKA
FACULTY OF MANAGEMENT STUDIES

BACHELOR OF MANAGEMENT STUDIES HONOURS
BACHELOR OF MANAGEMENT STUDIES HONOURS IN ACCOUNTING AND FINANCE
BACHELOR OF MANAGEMENT STUDIES HONOURS IN HUMAN RESOURCE MANAGEMENT
BACHELOR OF MANAGEMENT STUDIES HONOURS IN MARKETING MANAGEMENT

AFU 3572 - MICROECONOMICS
CONTINUOUS ASSESSMENT TEST – 2023 / 2024
DURATION – TWO (02) HOURS

DATE: 23rd MARCH 2024 *TIME: 9.30 a.m. – 11.30 a.m.*

Index No. ....

Answer Sheet (MCQ)

Out of the four answers given, write the number of the correct answer against the relevant question number in the answer sheet. Marks will NOT be given for writing more than one answer number in the space provided.

Question Number	Answer Number
1.	
2.	
3.	
4.	
5.	
6.	
7.	
8.	
9.	
10.	

Question Number	Answer Number
11.	
12.	
13.	
14.	
15.	
16.	
17.	
18.	
19	
20	

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This question paper consists of PART – I (MCQ) and Part – II (Essay type questions).
Answer all questions in PART I & PART II

Use of non-programmable calculators is allowed.

INSTRUCTIONS:

- Part I comprises of TWENTY (20) Multiple Choice Questions carrying **40 Marks. (2 marks x 20)**
- In Part I of the question paper, Multiple Choice Questions should be answered on the separate answer sheet provided, with corresponding question numbers. Each question requires the selection of the correct answer from the four answer options provided in the question paper.
- Answer all questions in Part II of the question paper.
- Please write your index number at the top of the sheet in the provided space.
- This question paper consists of five (05) typed pages.
- Attach the answer sheet to your answer booklet.

PART I

1. Which of the following is **not studied** under Microeconomics?
i. Pricing and output decisions of real world firms.
ii. Behavior of the average price level in the economy.
iii. The impact of imposition of maximum legal price on a good.
iv. The impact of changing consumer income on demand for luxury goods.

2. The opportunity cost of a given activity includes;
i. Only the forgone income.
ii. Either the forgone income or the monetary cost.
iii. Only the monetary cost.
iv. Both the forgone income and the monetary cost.

3. Which of the following is/are feature(s) of a free good?
a. Not scarce.
b. Existence of Scarcity.
c. Existence of opportunity cost.
d. Zero opportunity cost.

i. Only "a" and "d",
ii. Only "b" and "c",
iii. Only "c" and "d",
iv. Only "b" and "d"

4. Which of the following assumptions made in the Production Possibility Curve (PPC) analysis is **incorrect**?
i. Resource base of the economy is fixed during the period under consideration.
ii. The resources can be combined in any way to produce the given two goods.
iii. The resources available are equally better at producing any good.
iv. The technology is fixed during the period under consideration.

5. Any point inside the production possibility curve shows;
i. Scarcity of resources.
ii. Inefficient allocation of resources.
iii. Unattainable levels of production.
iv. Efficient allocation of resources.

6. Which of the following is **not** a characteristic of a capitalist/free market economy?
i. Centralized planning.
ii. Efficient allocation of resources through the price mechanism.
iii. Ownership of factors of production by individuals.
iv. Carrying out of various activities with the profit motive.

7. Which of the following is a "Normative" statement?
i. All citizens of a country should be provided with basic health care by the government.
ii. Increase in taxes reduces the consumption expenditure of people.
iii. Demand for fuel is inversely related to price of fuel.
iv. To satisfy unlimited wants of people economies have limited resources.

8. An increase in real income of people has reduced the demand for public transportation, therefore public transportation is a;
i. Normal good, ii. Essential good, iii. Inferior good, iv. Public good.

9. Which of the following is held constant when consumer demand curve of good X is drawn up?

a. The price of substitutes of X
b. The consumer income
c. The price of X
d. The price of complementary goods of X

i. Only "c",
ii. Only "a" and "b",
iii. Only "a" and "c",
iv. "a", "b" and "d"

10. If the value of cross price elasticity of demand between goods X and Y is positive, increase in price of X will,

i. decrease the demand for Y.
ii. increase the demand for Y
iii. decrease the quantity demanded of Y.
iv. increase the quantity demanded of Y.

11. When the price of milk powder expected to go up in the near future;

i. both current demand for and current supply of milk powder will decline.
ii. there will be no change in current demand for and supply of milk powder.
iii. current demand for milk powder will decline and current supply of milk powder will increase.
iv. current demand for milk powder will increase and current supply of milk powder will decline.

12. The Law of Demand states that, other things remain constant, as the price of an item declines;

i. quantity demanded of the given item decreases.
ii. demand of the given item increase.
iii. quantity demanded of the given item increases.
iv. demand for the given item declines.

13. When price of eggs and margarine increases,

i. the supply curve of cakes will move to the right.
ii. the demand curve for cakes will move to the left.
iii. the supply curve of cakes will move to the left.
iv. the demand curve for cakes will move to the right.

14. The supply function of good "X" is given as Qs = - 96 + 12P (where Q is the quantity and P is the price); if a subsidy of Rs.3/= is provided for every unit that is being produced, the supply equation after the subsidy is;

i. – 60 + 12P,
ii. – 93 + 12P,
iii. – 96 + 9P,
iv. – 132 + 12P

15. When a unit tax is imposed on the supply of good X,

i. both the equilibrium price and quantity of X come down.
ii. the equilibrium price of good X remains the same and equilibrium quantity goes up.
iii. both the equilibrium price and quantity of good X increase.
iv. the equilibrium price of X increases, and the equilibrium quantity comes down.

16. When the government imposes maximum legal price that is below the equilibrium price; on a kilo of rice;

a. it creates a surplus of rice in the market
b. it creates a shortage of rice in the market
c. local rice producers will be encouraged
d. it could create a black market for rice

i. Only "a" and "C" are correct
ii. Only "b" and "d" are correct,
iii. "b", "C" and "d" are correct.
Iv. Only "d" is correct.

17. The total revenue generated from good X will decline, when,

i. the demand for X is elastic and price of X increases.
ii. the demand for X is inelastic and price of X increases.
iii. the demand for X is elastic and price of X declines .
iv. the demand for X is unitary elastic and price of X increases.

18. When consumers spend a very large percentage of their income on a good, the nature of price elasticity of demand of that good should be;

i. Perfectly elastic
ii. Perfectly inelastic
iii.Highly inelastic
iv.Highly elastic

19. The income elasticity of demand for good X is "+ 0.48", therefore good X is a/an;

i. inferior good ii. necessity, iii. luxury good, iv. Giffen good.

20. When a supply tax is imposed on a good having a perfectly elastic demand curve;

i. entire tax amount is borne by the sellers, and equilibrium quantity comes down.
ii. entire tax amount is borne by the buyers and equilibrium quantity comes down.
iii. the tax amount is equally shared between the buyers and the sellers.
iv. entire tax amount is borne by the sellers, and equilibrium quantity increases.

PART – II

Answer all the questions.
All questions carry equal marks (30 Marks each)

Question No 01.

A. a. "It is possible for some goods to have positively slopped demand curve" Do you agree? Explain using examples. (05 Marks)

b. How would the following changes affect the respective markets? Explain using illustrations.

i. Prolonged drought has destroyed the banana cultivation in the south, market for bananas.
ii. More and more people have entered into organic farming, market for vegetable produced using organic fertilizer.

iii. Medical report says consuming processed meat is harmful to human health, market for processed meat.
iv. Technological advancement has reduced the post-harvest losses in paddy farming, market for rice.

(12 Marks)

B. The demand and supply equations for good X is given as;
$Qd = 112 - 4P$ and $Qs = -80 + 8P$; where Q is the quantity and P is the price. Price in rupees and quantity in units.
Provide illustrations where necessary to explain your answer.

i. Find the price and quantity at the equilibrium point. (03 Marks)
ii. If the government imposes a minimum legal price at Rs. 20/= on good X, how would the market for X behave? What would be the economic repercussions of imposing minimum legal price? Explain. (07 Marks)

iii. If there are 10,000 identical consumers and 1000 identical producers of good X in the market derive the market demand and supply equations of good X. (03 Marks)

<u>Question No 02.</u>

A. i. What is meant by "Price Elasticity of Supply"? Explain with examples. (03 Marks)
ii. What are the determinants of Price Elasticity of Supply? Explain. (05 Marks)
iii. If the supply equation of a good is given as; $Qs = -56 + 8P$, P price in rupees, Qs quantity supplied in units, calculate the price elasticity of supply at the given good at the price Rs. 12/=, and comment on the elasticity coefficient. (06 Marks)

B. Explain whether you "agree" with the following statements.
i. The higher the cost of production of a good, the higher is the value of price elasticity of the supply of the given good.
ii. The longer the time period available, the higher is the value of price elasticity of the supply of the given good. (08 Marks)

C. How is the consumer equilibrium explained under; i. Cardinal and ii. Ordinal utility analysis? Explain, providing illustrations/examples where necessary. (08 Marks)