

THE OPEN UNIVERSITY OF SRI LANKA
 COMMONWEALTH EXECUTIVE MASTER OF BUSINESS/PUBLIC
 ADMINISTRATION PROGRAMME
 FINAL EXAMINATION – 2024 FEBRUARY
 AFP9405/ MSP9405/ MCP1605 – ECONOMIC ENVIRONMENT OF BUSINESS
 DURATION: THREE (03) HOURS



DATE: 11.02.2024

TIME: 9.30 AM – 12.30 PM

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

Question No.01

- A) i. Could markets allocate resources efficiently when some economic decision makers have access to more and better information than the others? Explain by providing examples. (04 Marks)
- ii. "Market failures provided justification for the governments to intervene in improving the workings of the market". Analyze the relevance of the given statement by providing an example each for a positive and negative externalities. Use illustrations to explain your answer. (08 Marks)
- B) Answer the following, using the concept of Elasticity, provide illustrations to explain your answer.
 Addiction to illegal drugs is one of the major problems faced by the societies all over the world today. How could the;
- i. Drug Prohibition,
 ii. Drug Education impact both the level of drug usage and drug related crime? (08 Marks)

Question No. 02

- A) "Resource allocation under Purely Competitive market coincides with the interests of sellers and of the Society, where as it is in conflict in a Monopolized market" Using illustrations explain whether you agree with the said statement. (06 Marks)
- B) i. Although economic profit provides ample means to finance research and development, why some economists are of the view that Monopolists are not always technologically progressive? Explain. (04 Marks)
- ii. To maximize profit, it is necessary to minimize costs, yet the existence of X – inefficiency in Monopolies could reduce the amount of profit the given firm makes. What is meant by X-inefficiency? What could be the reasons for X – inefficiency? Explain. (06 Marks)
- iii. Compared to firms operate in other markets, the Monopolists have a better opportunity to engage in price discrimination. What are the conditions that make it possible for Monopolists to engage in price discrimination? Explain. (04 Marks)

Question No. 03

- A) How would the entry of firms into Monopolistically Competitive industry affect the demand curve faced and the economic profit of the firms operate in these industries? Explain your answer using illustrations. **(06 Marks)**
- B) i. Is Oligopoly an efficient market structure from the society's standpoint? What are the conditions that might make it possible for Oligopolies to partly or wholly offset short run inefficiencies? Explain. **(07 Marks)**
- ii. Collusive behavior is possible among firms in Oligopoly markets, even informally. How would this affect the market outcome of these markets? What are the barriers that might make it difficult for firms in these markets to enter into collusive arrangements? Explain using illustrations. **(07 Marks)**

Question No. 04

- A) "Designing and effectively implementing macroeconomic policy framework is a complex task, mainly because of the trade-offs that exist between various policy targets." Discuss the relevance of the said statement by taking into consideration the different measures taken by the policy makers to overcome domestic economic challenges in Sri Lanka, especially over last two years. **(08 Marks)**
- B) It is generally agreed that running a continuously higher budget deficit is not desirable in the long run, the governments tend to increase taxes to reduce the budget deficit through revenue enhancement.
- What are the implications of running a higher budget deficit? Explain.
 - Are the reasons for the higher budget deficit matter? Explain.
 - Using Aggregate Demand and Aggregate Supply framework explain the impact of the higher taxation on the economy.
- (04 Marks x 3 =12 Marks)**

Question No. 05

- A) Rate of interest is one of the vital macroeconomic indicators and it is generally agreed the lower rate of interest stimulates productive investments, thus the economic growth and employment creation.
- Using illustration explain how the following changes affect the market rate of interest.
 - Rise in average price level in the economy.
 - The government buying back bonds and securities from the public in open market.**(05 Marks)**
 - "Lower interest may not always stimulate productive investments" Explain the relevance of this statement by taking the current statuses of the Sri Lankan economy. **(05 Marks)**

- B) i. Using illustrations explain the impact of; a) Tariffs, and b) Quotas on international trade?
(05 Marks)
- ii. There is a growing tendency for formal integration of economies in regional groupings. What are the successive stages of integration that reflect different degree of closeness? Explain.
(05 Marks)

Question No. 06

- A) "Sri Lanka has faced severe Balance of Payments (BOP) pressures and suffered acute foreign exchange shortages, thus drastic depreciation of the domestic currency."
i. What factors have contributed in depreciation of the domestic currency? Explain.
(05 Marks)
- ii. Discuss the impact of drastic depreciation of domestic currency on Sri Lankan economy? Would the depreciation improve the net exports in Sri Lanka? Explain.
(06 Marks)
- B) Using illustrations explain how the Sri Lankan rupee behave against USA \$ under floating exchange rate mechanism, when;
i. Rate of inflation in Sri Lanka is 8%, as against 4.8% in USA.
ii. The interest rate in USA is relatively higher than Sri Lanka.
iii. There has been a drastic increase in national income level in USA relative to Sri Lanka.
(09 Marks)

Question No. 07

- A) i. Explain the different perspectives held by economists as to whether "Economic Growth" is desirable and sustainable.
(05 Marks)
- ii. What are the demand and supply side factors that enhance economic growth of a country? Explain.
(05 Marks)
- B) i. What is meant by "Vicious Cycle of Poverty" hypothesis? Could this always be considered valid? Explain using examples.
(05 Marks)
- ii. What are the major factors that hinder developing countries from achieving satisfactory development? Explain while highlighting the sources of economic development.
(05 Marks)

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