The Open University of Sri Lanka
Bachelor of Management Studies (Honours) Degree Programme
Level: 05
AFU 5507: Managerial Economics
Assignment Test – February 2024
DURATION – Two (02) HOURS

753

DATE: 10. 02. 2024 | TIME: 9.30 a.m. – 11.30a.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 NO.	ANSWER NUMBER
1.	
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This paper consists of Part – I (MCQ) and Part – II (Essay type questions)

Use of non-programmable calculators is allowed.

INSTRUCTIONS FOR PART - I:
- Part I comprises of 20 Multiple Choice Questions carrying **40 Marks. (2 marks x 20)**
- In Part I of the 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 options provided in the question paper.
- Please write your index number at the top of the sheet in the provided space
- Attached the answer sheet to your answer booklet.

PART – I

Answer all questions.

1. Management of firms always aims at making optimum decisions, therefore for a firm whose objective is to maximize profit, determines the optimal price at the point where its,
  i. Marginal cost is the lowest.   ii. Marginal revenue is the highest.
  iii. Average cost (AC) = Average Revenue (AR)   iv. Marginal Cost (MC) = Marginal Revenue (MR)

2. The cost that is included by economists and excluded by accountants, when calculating profit is,
  i. Implicit Costs,   ii. Irrelevant costs,   iii. Historical Costs,   iv. Explicit Costs.

Answer question number **03, 04 and 05** using the given information.
The demand function of good "X", given as, $Q_d = 800 - 0.25P$, Q – quantity in units, P – Price in rupees.
3. The Marginal Revenue (MR) equation of the above demand function is;
  i. $MR = 3200 - 4Q$,   ii. $MR = 3200 - 8Q$,   iii. $MR = 3200 - 4Q^2$,   iv. $MR = 3200Q^2 - 4Q$

4. The Average Revenue (AR) equation of the above demand function is;
  i. $AR = 3200Q - 4Q^2$,   ii. $AR = 3200Q^2 - 4Q$,   iii. $AR = 3200 - 4Q$,   iv. $AR = 3200 - 8Q^2$.

5. At what output rate (Q- units) and price (P- Rupees) the above demand becomes unitary elastic?
  i. When Q = 800 . P = Rs. 1200/=   ii. When Q = 400, P = Rs. 1200/=.
  iii. When Q = 800, P = Rs. 1600/=.   iv. When Q = 400, P = Rs. 1600/=

6. Which of the following is certainly true, if demand and supply of a good decreases at the same time,
  i. the equilibrium price will decrease.
  ii. the equilibrium price will increase.

iii. the equilibrium quantity will decrease.

iv. the equilibrium quantity will increase.

7. The supply function of good "X" is given as Qs = - 96 + 8P; if a unit subsidy of Rs.2/= is given, the supply equation after subsidy is;

   i. − 98 + 8P,   ii. − 94 + 8P,   iii. − 96 + 10P, iv. − 80 + 8P

8. The demand equation for a good is given as, Q_d = 160 − 8P and its supply equation as Q_s = -20 +4P, Q is quantity in units and P is price in rupees; if Rs. 3/= tax is imposed on the supply;

i. the tax amount is equally shared between both the buyers and sellers.

ii. from Rs.3/=, one rupee is borne by the consumers and the remaining two rupees borne by the sellers.

iii. entire tax amount is borne by the sellers.

iv. from Rs.3/=, two rupee is borne by the consumers and one rupee is borne by the sellers..

9. Which of the following statement is **correct**?

  i. Firms always set the profit maximizing price where demand is inelastic.

  ii. Firms always set the profit maximizing price where demand is unitary elastic.

  iii. Firms always set the profit maximizing price where demand is elastic.

  iv. Firms never set the profit maximizing price where demand is elastic.

Answer question number 10, 11 and 12 using the following information.

The demand equation for good "X" is given as; Q_x = 8000 − 20P_x + 0.5I − 10 P_y

Qx − Quantity of X (Units), P_x − Price of X (Rupees), I = income in Rupees, Py − Price of y (Rupees)

If P_x = Rs. 120/=, I = Rs. 10,000/= and P_y = Rs. 100/=, then:

10. To increase the Total Revenue(TR) generated from good X ;

  i. price of X should be reduced, because price elasticity of demand of X is greater than one.

  ii. Price of X should not be changed.

  iii. price of X should be reduced, because price elasticity of demand of X is smaller than one.

  iv. price of X should be increased, because price elasticity of demand of X is smaller than one.

11. Which of the following statement is **correct**?

At a time of rising income,

  i. demand for X will increase at a rate faster than the rate at which income increases.

  ii. demand for X will increase at a rate lower than the rate at which income increases.

  iii. demand for X will remain the same.

  iv. demand for X will decrease.

12. Increase in the price of good y will,

  i. increase the demand for good X, and the value of cross price elasticity is greater than one.

  ii. decrease the demand for good X, and the value of cross price elasticity is greater than one.

  iii. increase the demand for good X, and the value of cross price elasticity is less than one.

  iv. decrease the demand for good X, the value of cross price elasticity is less than one

13. The bumper harvest of tomatoes due to better weather conditions could,

  i. reduce the revenue of tomato farmers, because demand for tomatoes is price inelastic.

  ii. increase the revenue of tomato farmers, because demand for tomatoes is price inelastic.

  iii. increase the revenue of tomato farmers, because demand for tomatoes is price elastic.

iv. reduce the revenue of tomato farmers, because demand for tomatoes is price elastic.

14. If the government wants to increase the revenue it collects through taxation, it should;
i. levy taxes on goods whose price elasticity of demand is greater than one.
ii. levy taxes on goods whose price elasticity of demand is lower than one
iii. disregard the nature of price elasticity of demand when levying taxes.
iv. levy taxes on goods whose price elasticity of demand is equivalent to one

15. When supply curve of a product is more elastic, the effect of change in demand for the given Product;
i. is greater on price than on quantity of the product.
ii. is the same (equal) on price and the quantity of the product.
iii. only affects the quantity of the product.
iv. is greater on quantity than the price of the product.

16. If consumers find zero substitutes for product "X" and they spend absolutely a negligible amount of their income on the same, then;
i. demand curve of X should be perfectly elastic.,   ii. demand curve of X should be perfectly inelastic.
Iii demand curve for X should be unitary elastic.,   iv. supply curve of X should be perfectly inelastic.

17. When a supply tax is imposed on a good having a perfectly elastic demand curve;
i. entire tax amount is borne by the buyers, and equilibrium quantity comes down.
ii. entire tax amount is borne by the sellers 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 buyers, and there is no change in equilibrium quantity.

18. When Marginal product of the variable factor is higher than its Average product;
i. the marginal product is always rising.
ii. the marginal product is always declining.
iii. the average product is always declining.
iv. the average product is always rising.

19. Production or in other words Output elasticity of labour can be calculated;
i. by dividing Marginal Product of Labour (MP_L) from Average Product of Labour (AP_L)
ii. by multiplying Marginal Product of Labour (MP_L) from Average Product of Labour (AP_L)
iii. by dividing Average Product of Labour (AP_L) from Marginal Product of Labour (MP_L)
iv. by dividing Total Product of Labour (TP_L) from Marginal Product of Labour (MP_L)

20. Considering the Total Cost (TC) function of a firm given as; $TC = 800 + 120Q - 8Q^2 + 0.5 Q^3$; which of the following is **correct**?
i. This is a short run function and its Average Variable Cost (AVC) = $120Q - 8Q^2 + 0.5Q^3$.
ii. This is a short run function and its Average Variable Cost (AVC) = $120 - 8Q + 0.5Q^2$.
iii. This is a short run cost function and its Average Variable Cost (AVC) = $120 - 16Q + 1.5Q^2$.
iv. This is a long run cost function and its Average Variable Cost (AVC) = $120 - 16Q + 1.5Q^2$.

PART – II

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

Question No 1.

A. i. What is meant by the "Principal – Agent" problem? Explain using examples.
   ii. What methods could be employed to overcome "Principal – Agent" problem? Explain.

(10 Marks)

B. i. What is the role of profit in a free market system? Explain.
   ii. Why it is important for a firm to be aware of present value (PV) of future stream of income? What is the method of calculating the present value of future stream of income? Explain.
   iii. In achieving different objectives of firms, what are the various constraints **management** of modern-day firms has to face? Explain with examples.
   iv. Other than economic objectives, why it is important for modern day firms to focus on non-economic objectives? Explain using examples.

(20 Marks)

Question No 2.

A. Would the "Short" and "Long" run production of a firm be determined by considering a specific time period? Explain using examples. **(05 Marks)**

B. Consider the short run production function given below.

Q_L	TP_L	AP_L	MP_L	MR	MRP_L
1	04				
2		06			
3		10			
4			14		
5	55				
6			05		
7	60				
8			- 04		

Q_L- Quantity of Labour TP_L-Total Product AP_L- Average Product
MP_L-Marginal Product, MR-Marginal Revenue, MRP_L- Marginal Revenue Product of Labour.
Unit price of the product = Rs. 250/-, Wage rate of labour = Rs. 2750/-

i. Fill in the table and identify the stages of production. Explain your answer with illustrations.
ii. What stage the rational firm should limit its production? Justify your answer.
iii. How many workers should a profit maximizing firm employ? Explain. **(15 Marks)**

C. Reasons for the 'U" shape of the Long Run Average Cost Curve (LAC) is the scale economies, what are the practical reasons for such scale economies? Explain **(10 Marks)**