

**THE OPEN UNIVERSITY OF SRI LANKA
FACULTY OF MANAGEMENT STUDIES**



**BACHELOR OF MANAGEMENT STUDIES HONOURS DEGREE
PROGRAMME**

LEVEL 5

AFU 5572 – MANAGERIAL ECONOMICS

FINAL EXAMINATION – 2025 / 2026

DURATION – THREE (03) HOURS

DATE: 20th JUNE 2026

TIME: 1.30 p.m. – 4.30 p.m.

INSTRUCTIONS:

- This question paper consists of **six (06) questions**.
- Answer any **five (05) questions**. All questions carry equal marks.
- Please **write your index number** at the top of the answer sheet in the provided space.
- This question paper consists of **three (03) typed pages**.
- Attach the answer sheets to your answer booklet.
- Use of non-programmable calculator is allowed.

Question No. 01

- A) i. "Although baseline assumption of traditional theory of firm is Profit Maximization, the modern-day firms pursue a complex mix of objectives." Elaborate with examples. **(08 Marks)**
- ii. While Accounting profit provides a snapshot of cash flow and immediate financial health of a firm, economic profit measures the real gains of a business firm" While differentiating between the accounting and economic profit using examples, explain whether you agree with the given statement. **(07 Marks)**
- B) What are the multitude of constraints the modern-day firms encounter when pursuing organizational objectives? **(05 Marks)**

Question No. 02

- A) A medical report states that eating dark chocolates improves heart health while at the same time the price of ingredients necessary to produce the same has gone up. How would these developments affect the market for dark chocolates? Explain using illustrations. **(05 Marks)**

B) Consider the details of good “X” is given in the table below.

Price (Rs.)	Quantity Demanded (Units)	Quantity Supplied (Units)
8/=	72	32
12/=	40	80

Provide illustrations to explain your answers where appropriate.

- i. Derive the demand and supply equations. (03 Marks)
- ii. Find the equilibrium price and quantity. (02 Marks)
- iii. Find the price elasticity of demand and price elasticity of supply at the equilibrium. (03 Marks)
- iv. If a unit tax of Rs. 5/= is imposed on the supply, find the new equilibrium price and quantity. Is there a relationship between the elasticity coefficients calculated in **part iii**, and how the tax amount is shared between the buyers and sellers? Explain. (07 Marks)

Question No.3

- A) i. Using examples differentiate between “Price Elasticity of Demand” and “Price Elasticity of Supply.” (04 Marks)
- ii. Providing reasons answer the following.
 - a. What is the nature of Price Elasticity of demand for fuel in the short and long run?
 - b. What is the nature of Price Elasticity of supply of tomatoes in the short and long run? (06 Marks)

B) Consider the information given below.

Income (Rs.)	Quantity Demanded (Units)		
	Good A	Good B	Good C
24,000/=	6	136	32
30,000/=	8	160	26

Calculate the income elasticity of goods A, B and C and based on the values obtained, classify the goods, and explain quantity demanded and income relationship of the three items using illustrations and examples. (10 Marks)

Question No. 04

- A) i. Using an example distinguish between short and long run production. (04 Marks)
- ii. Providing illustrations distinguish between the stages of production in the short run. (05 Marks)

- iii. How could the knowledge in stages of production as stated in **part ii** help a manufacturing firm to make the rational production decision? Justify your answer.

(05 Marks)

- B) Using illustrations explain the concept of "Returns to Scale".

(06 Marks)

Question No. 05.

- A) i. Using illustrations define the concept of "**Break – Even**" analysis and explain how the knowledge of the same helps a manager in making sound business decisions. (07 Marks)

- ii. Total Revenue (TR) and Total Cost (TC) functions of a firm given as;

$$TR = 80Q \quad TC = 24,000 + 40Q$$

- a. Find the break-even output.

- b. Determine the output rate necessary to make a profit of Rs.120,000. (05 Marks)

- B) i. Define the concept Degree of Operating Leverage (DOL) and how is DOL of a firm calculated? (04 Marks)

- ii. How could the knowledge in DOL help a manager in making business decisions? Explain.

(04 Marks)

Question No. 06.

- A) i. Given the nature of the demand curve a perfectly competitive firm faces, could it maximize its profit when its marginal costs (MC) equals unit price of the product it offers (MC=P)? Explain using illustrations. (04 Marks)

- ii. Using illustrations explain economic profitability, allocative efficiency and productive efficiency of the perfectly competitive industry at the long run equilibrium. (06 Marks)

- B) i. "Strict entry barriers including economies of scale gives the monopolist extremely high market power to determine the price of the product it offers." While highlighting the barriers to entry in the market, explain whether you agree with the statement given.

(05 Marks)

- ii. Demand (Q_d) and Total Cost (TC) equations of a Monopolist given as;

$$Q_d = 84 - 0.5p \quad TC = 64 + 2Q^2 \quad (Q - \text{Quantity in units, } P - \text{Price in Rupees})$$

- i. Find the profit maximizing price and output.

- ii. Calculate the profit of the firm.

(05 Marks)

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