

THE OPEN UNIVERSITY OF SRI LANKA
FACULTY OF MANAGEMENT STUDIES



BACHELOR OF MANAGEMENT STUDIES HONOURS DEGREE
PROGRAMME

LEVEL 3

AFU 3572 – MICROECONOMICS

FINAL EXAMINATION – 2025 / 2026

DURATION – THREE (03) HOURS

DATE: 28th JUNE 2026

TIME: 9.30 a.m. – 12.30 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. Using illustrations differentiate between the "Law of Demand" and the "Law of Supply".
 ii. Would the demand for every item confirm the Law of Demand? Explain using illustrations. **(05 Marks x 2 = 10 Marks)**
- B) Using illustrations, explain the impact of the following changes on the market of given item.
- i. An impressive technological advancement has taken place in the electric vehicle (EV) manufacturing industry, market for EVs.
 - ii. There has been a drastic increase in the price of fuel, market for electric vehicles.
 - iii. People have become increasingly aware of negative health impacts of eating meat, market for meat products.
 - iv. Rough weather conditions have prevented fishermen from engaging in their trade, market for fish. **(2.5 Marks x 04 = 10 Marks)**

Hint: In each case, identify whether the change affects demand or supply, indicate the direction of the shift (increase or decrease), and explain the resulting changes in equilibrium market price and equilibrium quantity using appropriate diagrams.

Question No. 02

- A) i. How would a) the nature of the good and, b) the availability of substitutes determines nature of Price Elasticity of Demand of a specific item? Explain using examples. (06 Marks)
- ii. A manager of a firm intends to change the prices of several items that are offered to the market to increase the firm's revenue generated from the same, how would the knowledge in the price elasticity of demand help him arrive at correct decisions? Explain using illustrations. (06 Marks)
- B) Using the knowledge in concept of Elasticity, explain whether you "Agree" with the following statements.
- i. The value of Cross Price Elasticity between 7up and Sprite should be very high.
- ii. It is estimated that the Income Elasticity of Demand coefficient of public transportation is "- 0.48", therefore public transportation should be considered as a normal good. (08 Marks)

Question No. 03

- A) i. What is the difference in the major assumption made regarding the consumer behavior under "Cardinal" and "Ordinal" Utility Analysis? Explain. (03 Marks)
- ii. What is meant by "The Law of Diminishing Marginal Utility"? Explain using an illustration. (05 Marks)
- iii. Using illustrations where necessary, differentiate how the consumer equilibrium is explained under "Cardinal" and "Ordinal" utility analysis. (05 Marks)
- B) Consider the details given in the table below.

Quantity	0	1	2	3	4	5	6	7	8
TU _x	0	36	68	96	120	140	156	168	176
TU _y	0	48	90	126	156	180	198	210	216

Total Utility derived from good "X" is (TU_x) and from good "Y", it is (TU_y).

If the price of good X is Rs. 4/= and price of good Y is Rs. 3/= and the person has Rs. 45/= to be spent on both goods, find the quantities that maximize consumer satisfaction. (07 Marks)

Question No. 04

- A). i. Using examples differentiate between,
- a) fixed factor inputs and variable factor inputs and,
- b) short and long run production. (06 Marks)

- ii. How would the knowledge in the Law of Diminishing Marginal Returns (The Law of Variable Proportions) help a production manager in arriving at optimum production decision in the short run? Explain using illustrations. **(08 Marks)**

- B) Using illustrations, identify the reasons for the "U-shape of the Long Run Average Cost curve". **(06 Marks)**

Question No. 05

- A) i. Compare and contrast the Perfectly Competitive and Monopolistically Competitive markets. **(06 Marks)**
- ii. Using illustrations, explain the short run supply curve of perfectly competitive market. **(04 Marks)**
- B) i. Could a perfectly competitive firm maximize its profit at the point where its unit price equals its marginal Cost ($P=MC$) in the short run? Explain using illustrations **(05 Marks)**
- ii. How important are the non-price competitive methods for firms in monopolistically competitive markets? Explain using examples. **(05 Marks)**

Question No. 06

- A) i. Identify the advantages and disadvantages of Monopoly. **(05 Marks)**
- ii. "Being the only firm in the industry, monopolist never incur losses in the short run" Do you agree? Explain using illustration. **(05 Marks)**
- B) i. Are the firms in Oligopolistic markets "Independent" or "Interdependent"? Explain using examples. **(06 Marks)**
- ii. How would you classify the market structure of the natural gas industry in Sri Lanka? Justify your answer. **(04 Marks)**

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