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

**ADVANCED CERTIFICATE IN ENTREPRENEURSHIP & SMALL BUSINESS
MANAGEMENT (ESBM)**

**AFC 2308 - INTRODUCTION TO ECONOMICS
FINAL EXAMINATION - 2025/2026
DURATION – TWO (02) HOURS**

DATE: 09th MAY 2026

TIME: 01.30 P.M. – 3.30 P.M.

INSTRUCTIONS:

- This question paper consists of six (06) questions. Answer any four (04) questions.
- Please write your Index Number in the space provided in the answer script.
- This question paper consists of two (02) typed pages.
- All the workings should be clearly mentioned in the answer booklet.
- All questions carry equal marks (25 marks each).
- The use of non-programmable calculators is permitted.

Question 01

- a) Differentiate between Microeconomics and Macroeconomics. (03 marks)
- b) “Every economy operates under conditions of scarcity, where limited resources must be efficiently allocated to meet unlimited human wants.” What are the fundamental economic problems faced by an economy? Explain each briefly. (10 Marks)
- c) Explain the following independent scenarios using Production Possibility Curves (PPC). (12 Marks)
1. Economic Growth
 2. Technological development in one sector of the economy
 3. Full utilization of resources
- (25 Marks)**

Question 02

- a) Differentiate between Public goods and Private goods. (05 Marks)
- b) What is opportunity cost? Explain briefly how opportunity cost affects entrepreneurs' decision-making. (10 Marks)
- c) Explain the difference between a change in quantity supplied and a change in supply using illustrations. (10 Marks)
- (25 Marks)**

Question 03

- a) Name five factors affecting the Demand of a Product. (05 Marks)
- b) Explain Excess Demand and Excess Supply using illustrations. (10 Marks)

- c) Consider the following equations at a market equilibrium.

$$Q_d = 300 - 3P$$

$$Q_s = 2P + 200$$

1. Calculate the equilibrium price and quantity
2. Assume that the supply equation changes as $Q_s = 2P + 100$, calculate the new market equilibrium quantity and price.

(10 Marks)

(25 Marks)

Question 04

- a) Briefly explain the law of diminishing marginal utility. (05 Marks)
- b) Differentiate labour intensive and capital-intensive production techniques. (05 Marks)
- c) Assume that in the short run, a firm produced 3,000 units of a product. The cost per unit was Rs. 40, out of which 25% represents variable cost and the balance represents fixed cost. Based on this information;

- I. Calculate the variable cost per unit,
- II. Calculate the fixed cost per unit,
- III. Calculate the total variable cost of production,
- IV. Calculate the total fixed cost of production,
- V. Calculate the total cost of production.

(15 Marks)

(25 Marks)

Question 05

- a) Name the factors of production and their corresponding return. (05 Marks)
- b) Name and explain five macroeconomic variables of an economy. (10 Marks)
- c) Explain the circular flow of income in a two-sector economy (10 Marks)

(25 Marks)

Question 06

- a) Define Financial Intermediation. (05 Marks)
- b) Explain the impact of technological environment on business performance. (05 Marks)
- c) What do you mean by National Output of an economy? Explain the three main approaches of measuring it. (15 Marks)

(25 Marks)

Total= 100 Marks

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