THE OPEN UNIVERSITY OF SRI LANKA
DEPARTMENT OF SOCIAL STUDIES
BA DEGREE IN SOCIAL SCIENCES – LEVEL III
FINAL EXAMINATION – 2018/2019
DSU3531 – PRINCIPLES OF ECONOMICS I

DURATION: THREE (03) HOURS ONLY

Date: 02nd February 2019   Time: 09.30 a.m. – 12.30 p.m.

Answer five (05) questions selecting at least two questions from each part.
Show all your workings clearly.

Part I

1. (a) Explain how the problem of scarcity affects the choices people make and the opportunity costs they face?   (10 marks)

   (b) Explain briefly how each economic system answer the three basic economic questions.   (10 marks)

2. (a) Define a production possibilities curve and explain how it is used to illustrate the following concepts: opportunity cost, economic efficiency and economic growth.
                    (10 marks)

   (b) Why is the production possibilities curve bowed-out in shape?   (10 marks)

3. Below is a schedule of demand and supply for strawberries during one week in the December of 2017

Price (Rs.)	Quantity demanded	Quantity supplied
5	140,000	30,000
8	120,000	50,000
10	80,000	80,000
12	60,000	90,000
14	30,000	110,000

   (a) Construct a demand and supply curve diagram using the data in the table. Ensure all aspects of the graph are labelled appropriately.   (04 marks)

   (b) Assuming the market for strawberries is a perfectly competitive market, identify the equilibrium price and quantity traded, and explain what is meant by 'equilibrium'
                    (04 marks)

   (c) Assume that during December there was a period of unseasonably cold weather and the output of strawberries was negatively affected. Draw this scenario on the graph in part a., clearly showing the adjustment to the market conditions. (04 marks)

   (d) Identify the new the equilibrium price and quantity.   (2 marks)

(e) Calculate the price elasticity of demand from Rs. 12.00 to Rs. 14.00.   (04 marks)

· ·(f) For this price change, is demand for strawberries elastic or inelastic? Explain your
answer.   (02 marks)

4.
  ··(a) What is the difference between total utility and marginal utility?   (03 marks)
   (b) What is the key assumption about marginal utility?   (02 marks)
   (c) Explain the law of diminishing marginal utility with a diagram.   (05 marks)
   (d) Explain the conditions that are met when a consumer has found the best affordable
       combination of goods to buy. Use the indifference curves analysis to answer this
       question.   (10 marks)

Part II

5.
   (a) "The circular flow model illustrates how the economy functions". Explain this
       statement with a four-sector model.
           (05 marks)
   (b) Explain the following equation with an example for each concept.
       GDP = C + I + G + NX   (05 marks)
   (c) Briefly, explain the injections and leakages in the economy in Sri Lanka. How do
       they affect national income?   (10 marks)

6.

Real GDP, (Rs.)
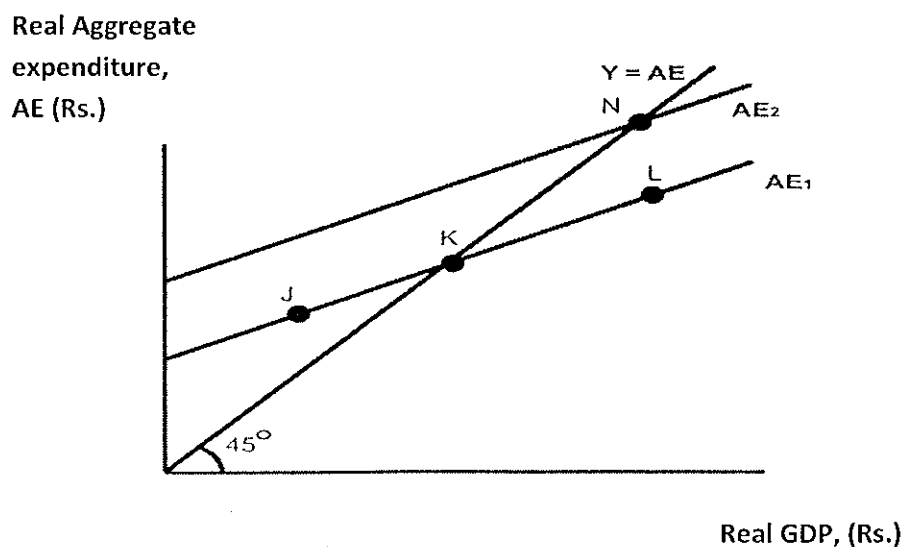
I.   Answer the following questions using the above diagram.
   (a) "Suppose that the level of GDP associated with point N is potential GDP. If the Sri
       Lankan economy is currently at point K, the economy is in recession" Explain.
                                                                               (03 marks)
   (b) What are the possible causes in shifting Aggregate expenditure, from AE_1 to AE_2?
                                                                               (04 marks)