

THE OPEN UNIVERSITY OF SRI LANKA  
BACHELOR OF MANAGEMENT STUDIES – LEVEL 5  
ASSIGNMENT TEST -2006  
MANAGERIAL ECONOMICS–MCU 3207



DURATION – TWO (02) HOURS

Date: 24<sup>th</sup> September 2006

Time: 10.00a.m. – 12.00p.m.

Answer FOUR (04) questions only.

1. What is the principal objective of a firm and explain how economic theory could be used to help management to achieve this objective. (25 Marks)
  
2.
  - i. What are the different forms that can be used to explain the relationship between price and quantity? (05 Marks)
  
  - ii. Why does a demand curve slope downward to the right? Can a demand curve slope upward to the right under any condition? (12 Marks)
  
  - iii. Consider the following equation for *product x* of 'SARA' Suppliers.  
$$Q_d x = 500 - 5p + 7p_y + 0.8Ad$$

Let ;  $Q_{dx}$  = Quantity demanded per year  
 $p$  = Price of product  $x$  in SARA  
 $p_y$  = Price of product  $x$  in NEKI Company.  
 $Ad$  = Advertising expenditure by SARA for product  $x$  (in rupees).

Explain the above demand function by interpreting each independent variable in the equation. (08 Marks)
  
3.
  - i. Why is demand forecasting important for a manufacturing firm. Explain. (12 Marks)
  
  - ii. 'A firm under perfect competition is a price taker.' Explain by using a graph. (13 Marks)

4. i. Define production function, and explain how it helps in decision making.  
(13 Marks)
- ii. 'The total production is the total of output from a production system.' Graphically explain the specific behaviour of total production assuming that production is only a function of labour. ( $Q = f(L)$ ).  
(12 Marks)
5. i. How do economists classify factors of production? What inputs you can include to extend this production function.  
(05 Marks)
- ii. Explain the stages of production by using graphs.  
(20 Marks)

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