THE OPEN UNIVERSITY OF SRI LANKA
BACHELOR OF MANAGEMENT STUDIES – LEVEL - 05
ASSIGNMENT TEST – 2010
MANAGERIAL ECONOMICS – MCU 3207
DURATION: TWO HOURS

DATE : 07th November 2010	TIME : 2.00 pm – 4.00 pm

Answer Part 'A' and any two questions (02) from part B.

PART – A

1) a) "In achieving firms objectives firms have to function under various constrains" Do you agree? Explain with examples.

(6 marks)

b) From economic point of view, for a firm Economic Profit is important than Business Profit. What is the difference between Economic & Business profit? Explain using examples. (6 marks)

c) Consider the following price quantity relationship of good X.

Price (Rs.)	Quantity demanded (Units)
24/=	1420
30/=	1240

i) Derive the demand function of good 'X'
ii) Find the price elasticity of demand of good X, at price Rs.30/=, Comment on the elasticity coefficient.
iii) If supply function of good X is given as

$$Q_s = -1060 + 34P$$

Find the equilibrium level of price and quantity. (8 marks)

d) i) Explain whether the following statements are true or false. Use illustrations.

- "A company faced by an elastic demand curve will always benefit by increasing price".
- "A company faced by an inelastic demand curve will always benefit by decreasing price".

(6 marks)

ii) Suppose equation for demand curve for good 'X' has been estimated as

$$Q = 240 - 8p + 0.2y$$

Q – quantity p – price y – income
Assume, p = Rs. 12/= and y = Rs. 80/=

- At price Rs. 12/=, what is the price elasticity?
- At an income level of Rs. 80/=, what is the income elasticity?
- Interpret the coefficients of Price and Income elasticity of demand.

(08 marks)

e) Suppose good X has an inelastic demand and good 'Y' has elastic demand and the supply curve for both goods has normal positive slope.
If government imposes a unit tax of 't' on the supply of both goods, how will the tax be shared between the consumers and the suppliers. Explain using illustrations. (6 marks)

PART B

2) "Managerial Economics helps a goal oriented manager in two ways. First given an existing economic environment the principles of managerial economics provide a framework for evaluating whether, the resources are being allocated efficiently within a firm. Second these principles help managers respond to various economic signals". Discuss the above statement with examples. (30 marks)

3) a) What is the Law of Diminishing Marginal Returns? Explain using illustrations.

(8 marks)

b) Define the following
   i) Marginal Rate of Technical Substitution.
   ii) Marginal Revenue Product of Labour
   iii) Optimum expansion path
   iv) Returns to scale (16 marks)

c) i) What is "ISO – COST" Curve ?
   ii) Prove that the slope of the "ISO – COST" cure is equivalent to the price ratio of the two factor inputs. (Ex:- labour & capital) (6 marks)

4) a) The Cost Function of a firm given as; $TC = 240Q - 8Q^2 + 0.2\,Q^3$

   i) Is this short or long run cost curve?
   ii) Determine the average cost function and the rate of output that will minimize average cost.
   iii) Determine the marginal cost function and the rate of output that will minimize marginal cost.
   iv) What is the out put at which average cost equals marginal cost?
   (10 marks)

b) Explain the following
   i) Long Run Average Cost
   ii) Break – Even analysis
   iii) Operating Leverage (12 marks)

c) i) Consider the following details of a firm
   Total fixed cost = Rs. 80,000, Variable cost per unit = Rs. 12/=
   Price of a unit of product 'X' = Rs.32/=

   - Find the quantity of (X) that needs to be produced to achieve Break Even point?
   - What is the corresponding total revenue at this out put rate?

   ii) What is the quantity that has to be produced to meat a profit target of Rs. 100,000?

(08 marks)