

THE OPEN UNIVERSITY OF SRI LANKA
BACHELOR OF MANAGEMENT STUDIES DEGREE PROGRAMME – LEVEL 05
ASSIGNMENT TEST – 2014/2015
MANAGERIAL ECONOMICS – MCU 3207
DURATION – TWO (02) HOURS



DATE: 08.02.2015

TIME: 10.00 AM - 12.00 NOON

Answer any two (02) questions. All questions carry equal marks.

1. (a) “ It is assumed that the goal of the firm is to maximize the value of the firm or the present value of all future profits” .
 - i. How do you calculate the present value of future stream of income? Explain.
 - ii. How consistent is the theory of Profit Maximization in explaining the behaviour of the modern day firms? Explain with examples.
 - iii. What are the other theories that have been developed to explain the behaviour of firms? Explain.
 - iv. Differentiate between Accounting Profit and Economic Profit.
(30 Marks)
- (b) “Making optimizing decisions under various constraints is a fundamental part of Managerial Economics” Elaborate with examples.
(10 Marks)
- (c) Demand Theory and analysis can be a source of many useful insights for business decision making. Understanding the forces behind demand is a powerful tool for managers” Do you agree? Explain. (10 Marks)
2. (a) “Knowledge on Concept of Elasticity is very useful for a manager to make effective business decisions” Discuss, providing Examples.
(25 Marks)
- (b) The demand equations for goods ‘X’ and ‘Y’ are given as;
 $Q_x = 72 - 4P$ $Q_y = 120 - 10P$
 - i. Find the Price Elasticity of Demand for goods X and Y, at price Rs. 8/=.

- ii. If the Firm intends to increase revenue generated from goods X and Y how should the price of X and Y be changed? Explain using illustrations. (13 Marks)

- (c) How would the following factors determine the Price Elasticity of Demand.
- Percentage of Income spent on the good.
 - Availability of substitutes.
 - Nature of the good.
- (12 Marks)

3. (a) Explain whether you "agree" or "disagree" with the following statements.
- A firm can change any factor input in the short run.
 - The actual period of time encompassing the long run is likely to vary from one industry to another.
 - A profit maximizing firm employs labour until its Marginal Revenue Product of Labour is equal to wage rate ($MRP_L = W$)
 - The slope of the ISO – Quant is equivalent to the ratio of the marginal productivities of the two factor inputs.

(20 Marks)

- (b) A production function of a firm is given as follows.

QL	TP_L	AP_L	MP_L
1	2		
2		3	
3			6
4	24		
5		7	
6	42		
7			0
8		5	

- Fill in the table
- Identify the stages of production and explain that using illustrations.
- What stage should the rational entrepreneur select? Explain your answer.
- Explain the relationship between Average and Marginal production of Labour.
- If every unit that is being produced, is sold at Rs. 100/= and the wage rate is Rs. 700/= how many workers should be firm hire.

(30 Marks)