2017/2018

THE OPEN UNIERSITY OF SRI LANKA
BACHELOR OF MANAGEMENT STUDIES DEGREE PROGRAMME
LEVEL – 05
ASSIGNMENT TEST 2017
MANAGERIAL ECONOMICS – MCU 3207
DURATION – TWO (02) HOURS

DATE : 14.10.2017	TIME : 10.00 a.m. - 12.00 noon

Answer any two (02) questions. All questions carry equal marks (50 each).
Usage of non-programmable calculator is allowed.

Question No. 01

A) "The profit is the objective of most managers and entrepreneurs. However modern day markets and institutions constraint firms in many ways and this makes the real world managers to focus on both economic as well as non-economic objectives. Therefore behavior of real world managers is not always consistent with the profit maximization goal."

a) What are the non-economic objectives of modern day firms? Explain. **(06 Marks)**

b) In addition to the theory of Profit Maximization, what are the other theories that explain the behavior of modern day firms? Explain. **(08 Marks)**

c) Providing examples explain whether you agree or disagree with the above statement. **(16 Marks)**

B) "The present value of all future profits can be interpreted as the value of the firm."

a) How is the present value of future profit calculated? **(03 Marks)**

b) Why is it important to calculate the present value of future stream of income of a firm? **(04 Marks)**

c) Profits play two primary roles in the free market system, what are they? **(05 Marks)**

d) Profit is defined as revenues minus costs, yet the definition of cost is quite different for economists than for an accountant, highlighting this difference explain how an economist and an accountant calculate the profit of a firm. **(08 Marks)**

(Total Marks - 50)

Question No. 02.

A) Consider the details of good "X" given below.

Price (Rs.)	Quantity Demanded (Units)	Quantity Supplied (Units)
8/=	96	56
12/=	64	104

a) Derive the demand and supply equations of good "X". **(04 Marks)**

b) Find the equilibrium price and quantity. **(03 Marks)**

c) If a unit tax of Rs.3/=, has been imposed on good "X", find the new equilibrium price and quantity. **(04 Marks)**

d) Calculate Price Elasticity of Demand and Supply at equilibrium price and explain whether how the tax is shared between consumers and producers in answer to part "c" is related to the nature of price elasticity of demand and supply. Explain the answer using lustrations. **(07 Marks)**

e) Using illustrations explain how the following changes influence the market for good "X".

i. The price of a close substitute of good "X" declines.
ii. The price of a complementary product of "X" declines.
iii. There has been an improvement in production technology of good "X".
iv. The price of inputs needed to produce good "X" has increased. **(12 Marks)**

B) Explain whether you "agree" or "disagree" with the following statements. Provide illustration to explain your answer where possible.

a) The value of Price Elasticity of Demand of good "Y" is given as – 1.6, to increase the revenue generated from good "y", the price of good "y" should be increased.

b) The higher the percentage of income spent on the good, the higher is the Price Elasticity of Demand.

c) The value of Income elasticity of Demand for an inferior good is (+), and it remains between zero and one (0-1).

d) Lower the availability of substitutes for a good, the higher is the value of Cross Price Elasticity of that good. (20 Marks)

(Total Marks – 50)

Question No. 03

A) a) Using examples highlight the difference between Fixed inputs and Variable inputs. Can there be Fixed factors in the long run? (07 Marks)

b) What is the time period that is considered as long run in production? Could the long un in relation to a firm that manufactures garments and a business that Provides take away food service be the same? Explain. (09 Marks)

c) Highlighting the relationship among Total, Average and Marginal (TP, AP and P), describe the implications of the Law of Diminishing Marginal Returns. How would the knowledge in relation to this help a rational producer to determine optimum level of production in the short run

(12 Marks)

B) Consider the short run production of good "X" given below.

Q_L	TP_L	AP_L	MP_L	MR	MRP_L
1	2				
2		4			
3			13		
4	32				
5		8			
6			2		
7	42				
8		5			

Q_L - uantity of labour.
AP_L - Average product of labour.
MR – Marginal Revenue.
TP_L – Total product of labour.
MP_L - Marginal product of labour.
MRP_L - Marginal Revenue product of labour.

Each unit of good "X" is sold at Rs.200/= and the a unit of labour costs the firm Rs.1600/=

i. Fill in the table. (10 Marks)
ii. Identify the stages of production and explain the same using illustrations. (05 Marks)
iii. If the firm aims at maximizing profit, how many workers should the firm hire? On what basis the answer has been derived? Explain. (04 Marks)
iv. If the variable factor is capital, on what basis a firm employ capital to maximize profit? Explain. (03 Marks)

(Total Marks -50)