/

00320

THE OPEN UNIVERSITY SRI LANKA

BACHELOR OF MANAGEMENT STUDIES DEGREE PROGRAMME

FINAL EXAMINATION – 2018 NOVEMBER

MCU3207- MANAGERIAL ECONOMICS

DURATION- THREE (03) HOURS

DATE: 04.11.2018 **TIME: 9.30 A.M- 12.30P.M**

Answer any four (04) questions only.
All questions carry equal marks
Use of non-programmable calculators is allowed

Question No.1

A) "Maximizing profit is the major economic objective of most managers and entrepreneurs and profit is the difference between revenues and costs. However the definition of cost is quite different for the economists than for the accountants"

i. Based on the above, compare and contrast the "Economic Profit" and "Accounting Profit". Use an example to explain your answer.

ii. In addition to Economic objectives do the modern day firms pursue "non-Economic" objectives? Explain with examples. **(08 Marks)**

B) Consider the information given below, in relation to good "X", answer the questions given. Use illustrations where possible to explain your answer.

Price (Rs.)	Quantity Demanded (Units)	Quantity Supplied (Units)
5/=	200	00
10/=	160	60

i. Derive the demand and supply equations of good "X" **(03 Marks)**

ii. Find the equilibrium price and quantity. **(02 Marks)**

iii. If a unit tax of Rs.3/= , is imposed on the supply, find the new equilibrium price and quantity **(04 Marks)**

iv. If the government imposes a maximum legal price of Rs. 12/=, what would be the economic consequences? Explain. **(04 Marks)**

v. If the price of good "X" is expected to increase in the future, how would the consumers and suppliers react to such expectations at present? Explain. **(04 Marks)**

Question No. 02

A) The value of Price Elasticity of Demand for Tobacco is given as "- 0.48" and electrical items given as "- 1.36", how would the market for each item behave, if the government is to impose supply tax on both? How would the tax be shared? Explain using illustrations. **(06 Marks)**

B) Consider the Demand and Supply equations of good "X", given below.

$Q_d = 48 - 4p$ $\qquad\qquad$ $Q_s = -36 + 8p$

i. Calculate the Price Elasticity of Demand and Price Elasticity of Supply at the equilibrium price.

ii. If the firm is to increase the revenue generated from good "X", how should the price of "X" be changed? Explain using illustrations. **(06 Marks)**

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

i. The lower the cost of production, the lower is the Price Elasticity of Supply.

ii. The higher the percentage of income spent on the good, the lower is the Price Elasticity of Demand. **(06 Marks)**

D) How useful is the knowledge in relation to Income Elasticity of Demand for a manger to make effective business decisions? Explain with examples. **(07 Marks)**

Question No.03

A) The production function of a firm is given below.

Q_L	TP_L	AP_L	MP_L	MR	MRP_L
1	06				
2		09			
3		13			
4			17		
5			14		
6			08		
7			00		
8			-02		

Suppose the unit price of the given item is Rs.100/=.

i. Fill in the table **(05 Marks)**

ii. Does the above production function confirm the Law of Diminishing Marginal Returns? Explain your answer using illustrations. **(05 Marks)**

iii. At what stage the rational firm maintain its production? Explain. **(03 Marks)**

iv. If the wage rate is Rs.1400/=, how many workers should profit maximizing firm hire? Explain. **(03 Marks)**

B) "The time encompassing long run is the same for all the industries" Do you agree? Explain your answer taking "oil" and "Garment" industries as examples. **(05 Marks)**

C) What is meant by "Optimum Expansion Path"? Explain using illustrations. **(04 Marks)**

Question No. 04

A) The Total Cost (TC) function of a firm given as;

$$TC = 1000 + 8Q - 3Q^2 + 0.1Q^3$$

i. Find the Total fixed Cost (TFC), Average Total Cost (ATC) and the Average Fixed Cost (AFC)
ii. Determine the Average Variable Cost (AVC) and the rate of output at which the AVC is minimum.
iii. Determine the Marginal Cost (MC) and the rate of output at which the MC is minimum. **(09 Marks)**

B) a. Define the following. (Provide illustration where possible).
i. Break Even Analysis (BEA) ii. Operating Leverage. **(05 Marks)**

b. How useful are the Break Even Analysis, and concept of Operating Leverage in making effective business decisions? Explain **(05 Marks)**

C) How would the scale economies determine the shape of the long run Average Cost curve (LAC). What are the practical reasons that contribute for scale economies? Explain using illustrations. **(06 Marks)**

Question No.05

A) "Perfectly Competitive firms make decisions in an economic environment that they perceive as being fixed or given. Therefore these firms can make important decisions without considering the reactions of their rivals" Do you agree? Explain using illustrations. **(05 marks)**

B) If a Perfectly Competitive firm is making economic losses in the short run, on what basis the management decide, whether to continue with the operations and shut down the plant? Explain using illustrations. **(07 Marks)**

C) The Total Cost (TC) function of a Perfectly Competitive firm given as;
$TC = 720 + 4Q + 0.1Q^2$

i. If the unit price of the item produced is Rs.124/=, find the profit maximizing/loss minimizing price and quantity?
ii. Depending on whether the firm is making short run profit or loss, explain the long run behavior. Provide relevant illustrations.
iii. Could Perfectly Competitive firms achieve maximum allocative efficiency in the long run? Explain **(13 Marks)**

Question No. 06

A) Explain whether you "agree" or "disagree" with the following statements. Provide illustrations to explain your answer where appropriate.

i. A monopolist can determine both the price and the output at the same time.

ii. "Relative to a perfectly competitive industry, a monopolist produces too little output and set too higher price. **(09 Marks)**

B) Total Cost (TC) equation of a Monopolist given as; $TC = 800 + 10Q^2$ and the demand equation given as; $Q_d = 16 - 0.02P$
(Q = output, P = Price)

i. Find the revenue maximizing price and output.
ii. Calculate the profit maximizing price and output.
iii. Calculate the profit/loss.
iv. Is it possible for a Monopolist to make economic losses in the short run? Explain using illustrations. **(09 Marks)**

C) "Although the firms operating in Oligopoly industries are interdependent when making vital market decisions, Monopolistically Competitive firms are able to make independent decisions" Elaborate with examples. **(07 Marks)**