

THE OPEN UNIVERSITY OF SRI LANKA  
DEPARTMENT OF SOCIAL STUDIES  
BA DEGREE IN SOCIAL SCIENCES – LEVEL 3  
FINAL EXAMINATION - 2007/2008  
SSU 1203 - PRINCIPLES OF MICROECONOMICS



DURATION – THREE (03) HOURS

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Date: 20<sup>th</sup> September 2008

Time: 9.30 a.m. – 12.30 p.m.

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Answer five (05) questions only. Select at least one (01) question from each part.  
Each question carries 20 marks.

PART I

1. Describe the following concepts.
  - (a) 'Resources'
  - (b) 'Wants'
  - (c) 'Scarcity'
  
2.
  - (a)
    - (i) Define the law of demand.
    - (ii) What cause changes in demand?
    - (iii) How do affect the equilibrium price in (a) demand and (b) supply?
  - (b) The opportunity cost of any choice is "the forgone value of the next best alternative". Explain.
  
3.
  - (a) Define marginal utility.
  - (b) Explain the law of diminishing marginal utility. Illustrate it with an example.
  - (c) Briefly explain three (03) properties of an indifference curve.

PART II

4.
  - (a) How do you differentiate the short-run from the long-run?
  - (b) Differentiate the Total Physical Product (TPP) from the law of diminishing marginal returns.
  
5.
  - (a) Define the concept of "economies of scale".
  - (b) How do you relate economies of scale to explain the shape of the long term average cost curve?

6. Answer questions (a) through (f) using the following table in your answer script.

Output	TVC	TFC	TC	AVC	ATC	MC	TR	MR	AR
0	0	50							
1	25								
2	35								
3	42								
4	50								
5	60								
6	75								
7	100								
8	150								
9	190								
10	250								

- (a) Given: total fixed cost = Rs. 50; Price = Rs. 20. Fill in table.
- (b) On a graph paper, draw a graph of the marginal revenue, ATC, AVC and MC curves.
- (c) How much is the equilibrium output?
- (d) Find total profit.
- (e) Find the firm's shut-down point, and
- (f) Draw the firm's short-run supply curve in your graph.

### PART III

7.
  - (a) Explain three (3) characteristics of a monopoly market.
  - (b) What are the two conditions under which price discrimination can take place? Give an example of price discrimination.
8.
  - (a) "Product differentiation is crucial to monopolistic competition". Explain.
  - (b) Can a seller in monopolistic competition market influence the price? Explain your arguments.
9. Write short notes on any four (4) of the following.
  - (i) Kinked demand curve
  - (ii) Rule of  $MRP = MRC$
  - (iii) The assumption of "other things being equal"
  - (iv) Price elasticity of demand
  - (v) Minimum wage

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