

THE OPEN UNIVERSITY OF SRI LANKA  
 DEPARTMENT OF SOCIAL STUDIES  
 BA DEGREE IN SOCIAL SCIENCES – LEVEL 3  
 FINAL EXAMINATION 2008/2009  
 SSU 1203- PRINCIPLES OF MICRO ECONOMICS



DURATION THREE (03) HOURS

Date: 13<sup>th</sup> June 2009

Time: 9.30 a.m. – 12.30 p.m.

Answer five (5) questions including question one (1) which carries 40 marks. Remaining questions carry 15 marks each.

- 1 The following table presents short-run revenue and cost data for a firm producing shoes in a perfectly competitive market. Answer the following five (5) questions using this table.

Quantity ('000)	Price	TR ('000)	MR ('000)	TFC ('000)	TVC ('000)	TC ('000)	AC ('000)	MC ('000)
1	500	500			300	1300	1300	-
2		1000	500		450		725	150
3					480			30
4					650			
5					950			
6					1400		400.0	
7					2300			
8				1000	3800	4800		
9	500	4500		1000	6500	7500	833.3	2700

- 1.1 Complete empty cells in the table. (8 marks)  
 1.2 Draw TR and TC curves and show the break-even points. (8 marks)  
 1.3 Draw MR and MC curves and show the revenue maximization production level (8 marks)  
 1.4 What is the total profit at the revenue maximization level? (8 marks)  
 1.5 Compare and contrast the TR-TC approach and MR=MC approach (8 marks)
2. "Economics is a behavioural science". Discuss this statement outlining the major principles associated with the concept of Economics. (15 marks)
3. Draw a hypothetical Long Run Average Cost Curve (LRACC) and explain what factors contribute to its shape. (15 marks)

4. In the Sunday market at Kirulapana, consumers are ready to buy 300 kg of potatoes when its price is Rs 100 per kg; they also indicate that the total purchase will increase to 500 kg if price fall to Rs 50 per kg. However merchants selling potatoes responded differently. They agree to sell 600 kg at the price of Rs 150 per kg, but would reduce sales to 100 kg if prices fall to Rs 50 per kg (use a graph paper illustrate these curves).
- 4.1 Draw the equilibrium price and quantity for potatoes. (5 marks)
- 4.2 What will be the new market price if potato supply increases by 25 per cent at each price level? (5 marks)
- 4.3 Show what factors make change in supply different from change in quantity supplied. (5 marks)
- 5 Outline five (5) considerations that differentiate a perfectly competitive market structure from a monopoly. (15 marks)
- 6.1 Describe the law of diminishing marginal utility. (5 marks)
- 6.2 Compare and contrast utility analysis and indifferent curve analysis? (5 marks)
- 6.3 What are the major characteristics of indifference curves? (5 marks)
- 7.1 How do "market economies" solve the major economic problems? (8 marks)
- 7.2 What considerations make these solutions invalid for "centrally planned economies"? (7 marks)
- 8 Briefly describe the following pairs of concepts;
- 8.1 Consumer surplus and market surplus
- 8.2 Economic cost and accounting cost
- 8.3 Laws of diminishing marginal utility and diminishing marginal returns

\*\*\*\*\*Copyrights reserved\*\*\*\*\*