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THE OPEN UNIVERSITY OF SRI LANKA
DEPARTMENT OF SOCIAL STUDIES
BA DEGREE PROGRAMME IN SOCIAL SCIENCES – (2013/2014)
FINAL EXAMINATION - LEVEL III (SEMESTER I)
SSU1203 – PRINCIPLES OF MICROECONOMICS



DURATION: THREE HOURS (03 HOURS)

Date: 18.11.2013

Time: 09.30 a.m. – 12.30 p.m.

Answer five (05) questions. Select at least two (02) questions from each part.

Part one

Question 1

- i. Define Opportunity Cost. (05 marks)
- ii. Explain why a society is required to make trade-offs when it decides what it wants to produce. (15 marks)

Question 2

Answer **two (2)** of the three questions.

- i. Describe the concept of marginal analysis. (10 marks)
- ii. Describe what is meant by a “mixed economy”. (10 marks)
- iii. Discuss with graphs or in your own words “the price elasticity of demand”. (10 marks)

Question 3

- i. What is the difference between a shift of a curve and a movement along a curve? (05 marks)
- ii. For each of the followings, explain and illustrate what will happen to equilibrium price and quantity in the market for ice cream cones. Use separate graphs for each part of the question. (15 marks)
 - a. The weather turns unexpectedly warm.
 - b. Consumer incomes fall at the same time as a new way of producing ice cream is introduced to the ice cream industry.
 - c. The government declares the ice cream cone as an essential good and puts a price ceiling on the market.

Question 4

- i. What is a budget line? What does the point on it indicate in terms of prices? (05 marks)
- ii. A consumer consumes only two goods X and Y. Her money income is Rs 24 and the prices of Goods X and Y are Rs 4 and Rs 2 respectively. Answer the following questions: (15 marks)
 - a. Can the consumer afford a bundle of 4X and 5Y? Explain.
 - b. What will be the MRS_{xy} when the consumer is in equilibrium? Explain.

Part two**Question 5 (Total Marks: 20)**

Foothills Refrigerators assembles refrigerators for retail sales. The following table indicates their weekly production function using labour as their only variable input.

Labour (L)	Output(Q)
0	0
2	10
4	18
6	24
8	28

- i. Using the above information, create a table and calculate the marginal product (MP) and average product (AP). (05 Marks)
- ii. Draw the marginal product (MP) and the average product (AP) curves. (05 marks)
- iii. Do you observe increasing, constant, and diminishing returns to labour or some combination of the three? Explain. (10 Marks)

Question 6

The costs of production of a perfectly competitive soybean farmer are given in the table.

(Total Marks: 20)

Quantity of soybeans	Total cost
0	12
1	26
2	33
3	42
4	54
5	69
6	84
7	104

- i. Calculate the firm's Marginal Cost (MC), Average Total Cost (ATC), Average Fixed Cost (AFC), and Average Variable Cost (AVC), for the given levels of output.
- ii. If the price of the product is Rs. 15, at what output will the firm maximize its profits?
- iii. Calculate the profits at the above profit-maximizing output? Interpret your results.
- iv. At what price should the firm shut down operations in the short run? Give reasons for your answer.

Question 7

Answer **two (2)** of the three questions.

- i. Discuss briefly the different types of firms. (10 marks)
- ii. "The perfectly competitive firm finds that price equals marginal revenue while a monopolist finds that price is greater than marginal revenue". Explain. (10 marks)
- iii. Explain how minimum wage legislation could affect a perfectly competitive labour market. (10 marks)

Question 8

Compare and contrast the market structures of monopoly and monopolistic competition.

(Total Marks: 20)

Question 9

Write short notes on four (04) of the following. (Total Marks: 20)

- i. Explicit costs and implicit costs
- ii. Price ceiling and price floor
- iii. The profit maximizing rule
- iv. The law of diminishing marginal utility
- v. Marginal product and average product
- vi. Break even point

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