

THE OPEN UNIVERSITY OF SRI LANKA
 DEPARTMENT OF SOCIAL STUDIES
 BA DEGREE PROGRAMME IN SOCIAL SCIENCES – (2017/2018)
 FINAL EXAM – SEMESTER II
 DSU3532/ SSU1232 – PRINCIPLES OF ECONOMICS II



DURATION: THREE HOURS (03 HOURS)

Date: 13th May 2018

Time: 09.30 p.m. – 12.30 p.m.

Instructions:

- Answer five (05) questions.
- Part I is compulsory. Choose at least one question from each Part II and Part III and answer four (04) more questions.

PART I

1. Answer all the questions. Each question carries 5 marks.
 - i. Define diminishing marginal returns. Explain using appropriate graphs.
 - ii. Briefly explain any two (02) goals of business firms.
 - iii. What is a production function?
 - iv. Distinguish between explicit cost and implicit cost in the production process.
 - v. What is the difference between price making and price taking?
 - vi. What factors influence a firm to shut down in the short run?
 - vii. Why does economies of scale take place in the production process?
 - viii. What is meant by normal profit?

(5 × 8 = 40 marks)

PART II

2. (a) Using the total cost-total revenue method, explain how profit maximization happens in the short run in a perfectly competitive market. (*use hypothetical data to answer this question*) (8 marks)
- (b) Demonstrate graphically the relationship between productivity and the cost curves. (7 marks)
3. Illustrate how the long run equilibrium of a firm and the industry will be in the cases of,
 - (a) entry of new firms
 - (b) exit of firms (15 marks)
4. (a) What are the characteristics of a monopoly market? (7 marks)
- (b) Graphically explain the demand curve of a monopoly market. (8 marks)

5. (a) Explain the features of competitive factor markets. (8 marks)
(b) Distinguish factor markets with monopsony power and factor markets with monopoly power. (7 marks)

PART III

6. (a) Explain the characteristics of money. (8 marks)
(b) Compare and contrast the Barter system of exchange with currency system of exchange. (7 marks)
7. (a) Explain the ways in which a government finances budget deficits. (8 marks)
(b) The problem of chronic budget deficits has been often discussed in Sri Lanka. According to your understanding, what are the possible macroeconomic implications of budget deficits in an economy? (7 marks)
8. (a) Graphically illustrate how markets fail in the presence of externalities. (*You may use externalities in either production or consumption to write the answer.*) (8 marks)
(b) Describe the characteristics of public goods. (7 marks)
9. Write short answers on any **three (03)** of the following.
(a) Kinked demand curve
(b) Marshall Lerner condition
(c) Economic integration
(d) Objectives of the Central Bank (5×3 = 15 marks)

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