

THE OPEN UNIVERSITY OF SRILANKA
 DEPARTMENT OF SOCIAL STUDIES
 BA IN SOCIAL SCIENCES (NEW SYLLABUS) - LEVEL 3
 FINAL EXAMINATION – 2014 / 2015
 SSU1232 – PRINCIPLES OF ECONOMICS 2



DURATION: 03 HOURS

Date: 14th March 2014

Time: 09.30 a.m. – 12.30 p.m.

Instructions:

- Answer five (05) questions
- PART I is compulsory. Choose at least one question from PART II and PART III

PART I

1. Answer all the questions. Each question carries 5 marks.
 - i. Briefly explain the main goals of business firms
 - ii. Describe the law of diminishing returns
 - iii. Differentiate explicit and implicit costs
 - iv. Explain the situation in which a firm would choose to shut down in the short run
 - v. Describe how price discrimination takes place in a monopoly
 - vi. Briefly state how financial intermediaries facilitate economic activities
 - vii. Explain the importance of maintaining price stability in an economy
 - viii. Explain the role of the government in a market economy

(5 x 8 = 40 marks)

PART II

2. (a) Explain the reasons for the '*economies of scale*' of a firm (10 marks)
- (b) Demonstrate graphically the relationship between productivity and the cost curves (10 marks)
3. (a) critically analyze the basic assumptions of a perfect competition (10 marks)
- (b) Discuss the characteristics of a monopoly (10 marks)

- 4 (a) compare the characteristics of monopolistic competition and perfect competition (10 marks)
(b) Discuss the nature of price and output decisions of an Oligopolist (10 marks)
- 5 (a) Explain the features of competitive factor markets (10 marks)
(b) Distinguish factor markets with *Monopsony* power and factor markets with *Monopoly* power. (10 marks)

PART III

- 6 (a) Describe the functions of money (10 marks)
(b) Discuss the credit creation process of commercial banks (10 marks)
- 7 (a) Explain the reasons for price instability in an economy (10 marks)
(b) Describe the mechanism of interest rate stabilization (10 marks)
- 8 (a) Discuss the mechanisms of financing government budget deficit (10 marks)
(b) Explain the fiscal policy mechanisms that can be adopted to deal with macroeconomic instability (10 marks)
- 9 (a) Explain the features of *managed floating exchange rate* regime (10 marks)
(b) Discuss the ways of solving a balance of payment deficit (10 marks)

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