

THE OPEN UNIVERSITY OF SRI LANKA
DEPARTMENT OF SOCIAL STUDIES
BA DEGREE IN SOCIAL SCIENCES (NEW SYLLABUS) – LEVEL 3
FINAL EXAMINATION – 2014/2015
SSU1231 – PRINCIPLES OF ECONOMICS - 1



DURATION: THREE HOURS (03 HOURS)

Date: 02nd November 2014

Time: 09.30 a.m. – 12.30 p.m.

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

Part - 01

1. Explain how scarcity leads to choice and opportunity cost with in an economy.
2.
 - i. Explain the difference between a change in demand and a change in quantity demanded using a diagram.
 - ii. What would happen to the supply of tomatoes if
 - (a) wages paid to farm workers rise.
 - (b) a new mechanized tomato-picker is introduced that raises efficiency.
 - (c) Producers expect that the price of tomatoes will soon fall.
 - (d) there is a sudden early monsoon before the tomatoes are harvested.(Note: use a diagram for each question).
3.
 - i. Define the price elasticity of demand.
 - ii. Explain the relationship between the price elasticity of demand and the incidence of a tax.
 - iii. What happens to the size of the price elasticity of demand as we move down a linear demand curve?
4.
 - i. Define the terms marginal utility and the total utility
 - ii. Explain the principle of diminishing marginal utility using a numerical example.
 - iii. State the law of equi-marginal utility.

Part - 02

5. i. Explain the injections and leakages in a macroeconomy. How do they affect national income?
- ii. How can the Sri Lankan economy be explained using the circular income flow model?
6. In a closed economy consumption (C) is $100+0.8Y$ and planned investment is Rs. 100 million. Using those data answer the following.
- i. Derive the savings function.
- ii. Calculate the equilibrium level of output.
- iii. Illustrate (ii) using a graph.
- iv. Interpret what is meant by the slopes of the consumption and savings functions
7. i. Define national income accounts and explain its importance
- ii. Identify the strengths and weaknesses of national accounts of Sri Lanka.
8. i. Explain one approach to compute national income.
- ii. Explain the problem of double counting using an example.
9. Write short notes on three (03) of the following.
- i. Economic growth and production possibility Frontier.
- ii. Demand full inflation and cost push inflation
- iii. Boom and Depression
- iv. Marginal propensity to consume and marginal propensity to save
- v. Income effect and substitution effect
- vi. Positive economics and normative economics

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