THE OPEN UNIVERSITY OF SRI LANKA
DEPARTMENT OF SOCIAL STUDIES
BA DEGREE IN SOCIAL SCIENCES – LEVEL 3
FINAL EXAMINATION – 2016/17
SSU1231 – PRINCIPLES OF ECONOMICS I

DURATION: THREE HOUR (03 HOUR)

Date: 06th November 2016	Time: 09.30 A.M – 12.30 P.M

Instructions:

> Answer five (05) questions selecting at least two questions from each part
> Each question carries twenty (20) marks

PART I

1.
    I.   Explain the basic problems of an economy.
    II.   Why do these problems arise?
    III.   Do all kinds of economies face the same basic problems?

2.
    I.   Define the law of demand.
    II.   Distinguish a change in demand from a change in quantity demanded.
    III.   Discuss the major determinants of demand.
    IV.   Show how these determinants cause demand curves to shift.

3. The following table shows the demand and supply schedules for coffee. Using the information in the table.

    I.   Draw the demand and supply curves,
    II.   Indicate and explain the equilibrium price and quantity
    III.   Show and explain what happens when the current price of tea increases by Rs.20 %.
    IV.   Calculate the elasticity of demand between the equilibrium price and the price of Rs.5. Is the demand elastic or inelastic?

Price of coffee (Rs.)	Quantity demanded (per month)	Quantity supplied (per month)
5.00	3000	5000
4.75	3400	4400
4.00	3800	3800
3.50	4200	3200
3.00	4600	2600
2.50	5000	2000

PART II

4.
   I.   Define Utility.
   II.   Explain the law of Diminishing Marginal Utility using a diagram.
   III. State the law of equi-marginal utility

5.
   I.   Define circular flow of income model.
   II.   Explain the injections and leakages in a macro economy
   III. Explain how the injections and leakages affect national income.

6. Assume the following in a hypothetical economy

Consumption	$= 100 + 0.8\ Y_d$
Investment	$= 100$
Government	$= 200$
Taxation	$= 0.25\ Y$
Exports	$= 150$
Imports	$= 0.2Y_d$

   I.   Find the equilibrium level of national income

   II.   Estimate the surplus or deficit in the budget at the equilibrium income

   III. Estimate the balance of trade at the equilibrium income

   IV. Derive the savings function

   V.   Compute the income multiplier

7.
    I.   Define national income accounts and explain its importance
    II.   Explain Gross Domestic Product and its characteristics.
    III.   What are the limitations of the Gross Domestic Product approach to national accounts?

8.
    I.   Define a business cycle?
    II.   Identify the different phases of a business cycle.
    III.   Explain the two phases of a business cycle

9. Write shorts notes on four **(04)** of the followings

    I.   Production possibility frontier and economic growth

    II.   Demand pull inflation and cost push inflation

    III.   Output approach and Expenditure approach to national income

    IV.   Indifference curves and budget line

    V.   Income elasticity and Cross elasticity of demand

    VI.   a change in supply and a change in quantity supplied.

    VII.   Price ceilings and price floors