



THE OPEN UNIVERSITY OF SRI LANKA
COMMONWEALTH EXECUTIVE MASTER OF BUSINESS/PUBLIC
ADMINISTRATION
FINAL EXAMINATION – APRIL 2006
MCP 1605 – ECONOMIC ENVIRONMENT OF BUSINESS
DURATION : THREE (03) HOURS

Date: 02nd April, 2006

Time: 1.30 p.m. 4.30 p.m.

This question paper consists of six [06] questions. Answer any **FOUR** [04] questions

- 01] i. What do you mean by a business cycle? Explain your answer by giving an example.
- [05 Marks]
- ii. “The global economic environment plays a vital role in domestic business especially when the economy is liberalized”. Explain this statement considering the Kondretiff business cycle approach.
- [20 Marks]
[25 Marks]
- 02] i. In order to solve the heavy burden on government budget, inefficient government business ventures are subject to be privatized. However as a source of income generation, government business ventures are important. Critically explain why Sri Lanka has failed to make profits from such government businesses?
- [25 Marks]
- 03] i. Depending on the elasticities in the goods and services market and the money market, government expenditure can lead to a falling of domestic private investments at national level. Explain your answer by using the crowding out effect in various forms.
- [15 Marks]

- ii. "Government expenditure expansion [fiscal policy] could cause a downfall in investments that could be eased off by the monetary policy solutions". Do you agree with this statement? Explain your answer by assuming normal conditions in both the goods and the service markets.

[10 Marks]

[25 Marks]

- 04] Sri Lanka has used a number of strategies in its economic development process. However due to some fundamental errors in economic policy implementation, the economy did not grow as expected. Critically explain your answer.

[25 Marks]

- 05] Considering the British colonial economic activities [plusses and minuses], explain lessons, which can be applicable even in today's economic environment.

[25 Marks]

- 06] i. Production sector plays a vital role in an organization. If input is being used more than the required level, productivity of labour will fall causing the organization to suffer increasing cost of production and decreasing output. Explain this situation by using a short run production function.

[15 Marks]

- ii. Appropriate technology is vitally important in making profits. Explain this statement by using a long run cost curve.

[10 Marks]

[25 Marks]

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