THE OPEN UNIVERSITY OF SRI LANKA
COMMONWEALTH EXECUTIVE MASTER OF BUSINESS/PUBLIC ADMINISTRATION
FINAL EXAMINATION – APRIL 2006
MCP 2605 – MANAGERIAL ECONOMICS
DURATION : THREE (03) HOURS

Date: 08th April, 2006 **Time: 9.30 a.m. 12.30 p.m.**

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

01] i. Explain the differences and similarities between the fields of managerial economics, microeconomics and macroeconomics.

[10 Marks]

ii. Economics of risk can be explained by the indifference curve analysis. The consumer buys an insurance that guarantees the safe budget line or can gamble with the risk. Considering a tsunami disaster, explain the consumer's choice between insurance and gamble under indifference curve analysis?

[15 Marks]
[25 Marks]

02] According to the classical theory in economics, floating exchange rate can automatically give solutions to the problems occur in the trade account. However in practice the effectiveness of exchange rate depends on the elasticity of exports and imports. Do you agree with this statement? Give reasons for your answer taking Sri Lanka's situation into consideration.

[25 Marks]

03] i. Total effect of a price change of a good can be divided into two components as substitution effect and income effect. If there is a price decrease of a commodity [inferior to luxury] at any level, substitution effect is always positive where as the income effect varies. Explain this situation considering different types of commodities.

[15 Marks]

ii. "When factor productivity is zero or negative, a rational producer never engages in production". Explain the economic zone of production by using production indifference curves.

[10 Marks]
[25 Marks]

04] "At present there are several market structures that are appearing even in liberalized economies. However depending on various reasons, firms in different markets act differently with regard to consumer welfare". Distinguish consumer welfare under main market structures.

[25 Marks]

05]. i. "The German steel cartel [monopoly] in 1890 supplied to all the markets in Germany by giving the full protection through tariff against importation of steel. Since there was no steel available other than their own, the German steel cartel enjoyed high price in the domestic market but they exported steel at the world market price". Explain how a single firm can handle both the perfectly competitive and the monopolistic markets at once.

[15 Marks]

ii. "One main feature of an oligopolistic market is reactions among firms". By using the Edgeworth's contract curve analysis in an oligopolistic situation, explain the industry joint profit concept.

[10 Marks]
[25 Marks]

06]. i. How does a monopolistically competitive firm uses the measure of elasticity in pricing decisions? If a firm measures the elasticity of demand to be -2.5 and has a cost function of $C [Q] = 40 + 4Q^2$, how much should the firm charge from the consumers for its products?

[12 Marks]

ii. Assume that in a Cournot duopoly situation, the firms have the same cost structure of $C [Q] = 48 + 2.5Q$. If the elasticity of demand is -1.6, calculate the optimum price in this situation.

[13 Marks]
[25 Marks]