



025

**THE OPEN UNIVERSITY OF SRI LANKA**  
**COMMONWEALTH EXECUTIVE MASTER OF BUSINESS/PUBLIC**  
**ADMINISTRATION**  
**FINAL EXAMINATION – 2008**  
**MCP 1605 – THE ECONOMIC ENVIRONMENT OF BUSINESS**  
**DURATION : THREE (03) HOURS**



**Date : 21<sup>st</sup> March 2009**

**Time : 9.30 a.m – 12.30 p.m**

- (1) a. There is a well established set of economic goals that is widely accepted as legitimate objects of government attention. What are they? (6 marks)
- b. “Government price controls are policies that attempt to hold the price at some disequilibrium value that could not be maintained in the absence of the government intervention”.  
Discuss with examples  
Will this price controls have adverse impact on the economy? (7 marks)
- c. The pattern of trade for a nation is determined by the relationship between its demand and supply in relation to the world’s demand and supply. Explain how this situation makes a country an exporter or an importer, using illustrations. (7 marks)
- (2) a. Concept of elasticity is highly useful in making sound business decisions. Explain, how the knowledge of elasticity helps a manager in making such decisions with examples. (14 marks)
- b. Suppose the government imposes a sales tax of ‘t’ on good ‘x’. Analyse the impact of this imposition of tax, using demand & supply framework.  
Explain how the portion of tax paid by the consumer and producer change according to the slope of the demand curve. (6 marks)
- (3) a. The short and long run dynamics of Perfect Competitiveness provide three key lessons for manager in a highly competitive environment. What are these three key lessons? (6 marks)
- b. Explain the relationship between the elasticity of the demand curve faced by a Monopolist and its revenues.  
How can the Monopolistic firm determine profit maximizing and revenue maximizing output? (7 marks)
- c. What is price discrimination? Explain with examples.  
How can a Monopolists gain through price discrimination? (7 marks)

- (4) a. Using illustrations, explain why the Monopolistic Competitor can not expect to earn an economic profit indefinitely. (8 marks)
- b. "A Monopolistically Competitive market offers opportunity for firms to compete not only by trying to be the lowest cost producer but also by effectively differentiating their products". Do you agree? Explain with examples. (12 marks)
- (5) Presently there is debate in Sri Lanka that the government should allow the Rupee to depreciate in order to make local exports more competitive, as the adverse economic conditions of the world, especially the main trading partners have affected the domestic exports.  
Critically analyze the impact of such a move on the domestic economy. (20 marks)
- (6) a. Explain how the following factors affect the Aggregate Supply  
(i) Input prices  
(ii) Supplies of resources  
(iii) Technological knowledge  
(iv) Government policies (08 marks)
- b. Assume that economy is initially at long run equilibrium. Using an Aggregate Demand and Aggregate Supply (AD/AS) diagram, illustrate and explain the short run and long run impact of,  
(i) an increase in consumer spending and spending by firms.  
(ii) an adverse supply shock.  
How can the policy markers act in given situations? (12 marks)
- (7) Domestic inflation in Sri Lanka in the recent past was above 20% and presently the inflationary pressure has comedown to some extent. Explain the forces behind this inflationary trend.  
What has been the monetary policy stance taken by the Central Bank under these different inflationary conditions? What is the impact of these policies on business organizations? (20 marks)

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