

THE OPEN UNIVERSITY OF SRI LANKA
COMMONWEALTH EXECUTIVE MASTER OF BUSINESS/PUBLIC
ADMINISTRATION
FINAL EXAMINATION – MAY 2010
MCP 1605 : -ECONOMIC ENVIRONMENT OF BUSINESS



DURATION : THREE (03) HOURS

Date : 03rd May 2010

Time : 9.30 a.m – 12.30 p.m

Answer ANY 5 questions only.

- (1) (i) Governments occasionally interfere with the workings of competitive markets by introducing price controls. Using illustrations explain how the following situations affect the respective markets.
- Introduction of rent controls. (Short and the Long term impact)
 - Introduction of Minimum Wage Laws.
 - Introduction of agricultural price support system.
- (9 marks)
- (ii) “Just as bumper harvests hurt farmers, crop restrictions tend to raise farmer total revenues and earnings”. Do you agree? Explain with the help of demand and supply analysis.
- (6 marks)
- (iii) How will the knowledge of Advertising Elasticity help a manager in business decision making?
- (5 marks)
- (2) (i) Using examples, explain the following.
- Economies of Scope
 - Economies of Scale
 - The Learning Curve
- (8 marks)
- (ii) Are the following statements true or false? Explain.
- Average costs are minimized when marginal costs are at their lowest point.
 - As the fixed costs never change average fixed cost is a constant for each level of output.
 - The break even output of a firm can be calculated using the following equation.

$$= \frac{A.V.C}{P-T.F.C}$$

(A.V.C. – Average Variable Cost
T. F.C. – Total fixed cost, P – Selling Price of the product)

(12 marks)

- (3) (i) “The shut down point of a Perfectly Competitive firm comes where price is less than minimum Average Total Cost”.
- Using illustrations explain whether the above statement is true or false.
(6 marks)
- (ii) “Most market structures today fall somewhere on a spectrum between Perfect Competition and Pure Monopoly” Discuss with examples.
(14 marks)
- (4) (i) Why a firm operating in a Monopolistically Competitive market cannot expect to earn economic profit indefinitely? Explain using illustrations.
(10 marks)
- (ii) “It is possible for companies to create barriers to entry for potential rivals by using advertising and product differentiation.” Do you agree? Explain with examples.
(10 marks)
- (5) (i) Suppose Central bank conducts an open market operation and purchase government bonds from the public. How will this affect the economy when the economy has,
a) an inflationary gap
b) a recessionary gap
Explain using illustrations.
(10 marks)
- (ii) Explain how the following factors influence the Aggregate supply of an economy.
a) Government policies
b) Technological knowledge
c) Input prices
d) Resources supplies
(10 marks)

- (6) (i) What is the impact of a persistent larger budget deficit on an economy of a country? Explain, taking Sri Lankan economy as an example. (7 marks)
- (ii) "The control of inflation involves a broad spectrum of economic policies". Do you agree? Explain taking Sri Lankan economy as an example. (13 marks)
- (7) (i) Explain,
(a) Expenditure Changing Policies
(b) Expenditure Switching Policies (06 marks)
- (ii) "Particular cases of trade protection can be defended with either economic or non-economic arguments." Do you agree? Explain with examples. (14 marks)
- (8) (i) How will the following factors influence the demand and supply conditions of a foreign currency. ex-U.S. Dollar.
a. Interest rates
b. Income level
c. Rate of inflation
d. Exchange rate expectations. (12 marks)
- (ii) How has the value of Sri Lankan rupee fluctuated against the major currencies in the recent past? Explain the impact of this on the domestic imports and exports. (8 marks)

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