

080

THE OPEN UNIVERSITY OF SRI LANKA
COMMONWEALTH EXECUTIVE MASTER OF BUSINESS/PUBLIC
ADMINISTRATION
FINAL EXAMINATION – APRIL 2011
MCP 1605 : ECONOMIC ENVIRONMENT OF BUSINESS



DURATION : THREE (03) HOURS

Date : 27th April 2011

Time : 9.30 a.m. – 12.30 p.m.

Answer any Four (04) questions.

- (1) (a) “An extraordinary Feature of Private markets for goods and services is their automatic tendency to gravitate toward their respective equilibrium prices and quantities, yet this is sometimes prevented by government regulations” Do you agree? Explain using Examples. (10 marks)
- (b) Using illustrations explain the seasonal price variations of the following given situations.
- (i) Price of air line tickets, during the holiday season.
- (ii) Price of rice, during the harvesting season. (05 marks)
- (c) (i) Comment on the Price Elasticity of Demand for a particular car brand, ex: Nissan Sunny as against the Price Elasticity of Demand of all cars. (04 marks)
- (ii) Recently the government of Sri Lanka reduced the tax on imported motor vehicles and this has resulted in a considerable increase in the importation of motor vehicles thus the tax revenue for the government. What is the economic explanation for the given outcome? Would the same be true if the government reduces the sales tax on sugar? Explain. (06 marks)

- (2) (a) (i) Using an example, explain whether there can be fixed inputs in the long run.
(04 marks)
- (ii) How does the Law of Diminishing Marginal Returns explain a certain pattern of variation in output in the short run when the use of some inputs can't be varied. What are the practical reasons for such a pattern of variation? How will this help a rational producer in making output decisions?
(10 marks)
- (b) (i) Distinguish between Economies of Scale and Economies of Scope.
(04 marks)
- (ii) Explain about the factors that create Economies of Scale & Diseconomies of Scale in a firm.
(07 marks)
- (3) (a) (i) Explain why the demand curve of an individual firm operating in a Perfectly Competitive market differs from the market demand curve?
(05 marks)
- (ii) Why will a firm operating in a Perfectly Competitive market shut down in the short run only if price falls below minimum average variable cost of production? Explain using illustrations.
(07 marks)
- (b) (i) Can a Monopolist determine both the price and the output at the same time? Explain using illustration.
(05 marks)
- (ii) "From the perspective of fairness and equity the society is better off with Perfectly Competitive industries than Monopolies." Do you agree? Explain using illustrations.
(08 marks)

- (4) (a) "Macroeconomics is the study of the performance of national economies and of the policies government use to improve that performance " Discuss, referring to the present Fiscal and Monetary policy stance of the government of Sri Lanka and its impact on business environment. (25 marks)
- (5) (a) (i) Explain why the Aggregate Demand Curve is downward sloping ? (05 marks)
- (ii) Explain how the following factors influence the Aggregate Demand in an economy.
- * Changes in rate of interest.
 - * Fluctuations in the stock market.
 - * Changes in Government Expenditure
 - * Fluctuations in the exchange rate. (10 marks)
- (b) Discuss the impact of rising oil prices in the world market on the Sri Lankan Economy in General and business environment in particular. (10 marks)
- (6) "The gains in economic welfare associated with specialization and the law of comparative advantage are generally large enough to make a compelling case for free trade. However even if the Free Trade is the best policy for the world as a whole, it does not follow that every country faces a unilateral incentive to avoid trade barriers" Discuss, referring to economies of developing countries. (25 marks)

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