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THE OPEN UNIVERSITY OF SRI LANKA

POST GRADUATE DIPLOMA / MASTER OF TECHNOLOGY IN APPAREL PRODUCTION AND MANAGEMENT

TTM 7154 – MANAGERIAL ECONOMICS

FINAL EXAMINATION – 2013 / 2014

DURATION – THREE HOURS

DATE: 05TH SEPTEMBER 2014 **TIME:0930- 1230 HOURS**

Answer any four (04) questions.
Each question carries twenty five (25) marks.

(1) a. "A primary role of economics in management is in making optimizing decisions where constraints apply. The knowledge of the principles of management will help a business manager to sharpen his/her analytical skills in solving complex issues at his/her organization".

i) What are the constraints under which the management has to make optimizing decision?

ii) With examples explain how the knowledge in principles of economics management helps a manager in making effective decisions. How will this help a manager to solve complex issues at his/her organization?

(18 marks)

b. "The conventional notion of profit is relatively straight forward.Profit is defined as revenue minus costs. However the definition of cost is quite different for the economist than for the accountant" Do you agree? Explain. (07 marks)

(2) a) Demand functions for goods $'x'$ and $'y'$ given as;

$$Q_x = 45 - 3p \qquad Q_y = 60 - 4p$$

i. Find the Price Elasticity of good x , when its price is Rs.5/=.

ii. To increase the revenue earned from good x , should the firm increase or reduce the price? Explain using illustrations.

iii. Find the Price Elasticity of good y, when its price is Rs.9/=.

iv. To increase the revenue earned from good y, how should the price of y be changed? Explain using illustrations. (08 marks)

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b) How would the following factors determine the Price Elasticity of Demand for a product? Explain.

i. Availability of substitutes.

ii. Nature of commodity.

iii. Proportion of consumer income spent on the good.

iv. Time period. (10 marks)

c) Price of good x has increased by 10%. This has reduced the demand for good 'A' by 8%, increased the demand for good 'B' by 12% and there has been no impact on the demand for good 'C'.
Using illustrations explain the relationship between good x and other three goods (A,B, & C). Provide examples for this. (07 marks)

(3) a) i. What is the Law of Diminishing Marginal Returns?

ii. Using illustrations explain the stages of production in the short run?

iii. Explain how the Law of Diminishing Returns helps the management of a firm to make effective production decision? (10 marks)

b) i. What are the properties of ISO-Quant? Explain.

ii. Prove that a firm achieves the Least – Cost Factor combination at;

$$\frac{MP_L}{P_L} = \frac{MP_k}{P_k}$$

MP_L - Marginal Product of Labour P_L – Unit price of Labour
MP_k - Marginal Product of Capital P_k – Unit price of Capital

iii. What is meant by Returns to Scale? Explain using illustrations. (15 marks)

(4) (a) The cost function of a firm is given as;

$$TC = 480Q - 24Q^2 + Q^3$$

(i) Is this short or long run cost function? Explain.

(ii) Derive the Average Cost (AC) Function and find the output at which the Average Cost is minimum.

(iii) Derive the Marginal Cost (MC) Function and find the output at which the Marginal Cost is minimum.

(iv) Find the output at which MC = AC.

(v) Using illustrations explain the relationship between AC and MC. (12 marks)

(b) Explain the reasons for the `U' shape of Long Run Average Cost (LAC) curve? (07 marks)

(c) Using illustration Explain the following.

i. Break Even output

ii. Learning Curve (06 marks)

(5) (a) "Perfect Competition is an uncommon phenomenon in the real business world. However, there are markets in the real world that approximate to the Perfectly Competitive Model". Discuss with examples. (10 marks)

(b) Using illustrations explain whether you "agree" or "disagree" with the following statements.

(i) Perfectly Competitive Firms can determine the price in the market.

(ii) Perfectly Competitive Firms can make economic profit both in the short and the long run.

(iii) Perfectly Competitive firms maximize profit at the point where its Marginal Cost equals the Average Revenue. (MR = AR). (15 marks)

(6) (a) (i) What are the barriers to entry in Monopolistic Industry? Explain.

(ii) Can a Monopolist determine both the price and output of a good at the same time? Explain using illustrations. (08 marks)

(b) The demand and the total cost equations for a Monopolist given as;

$Q = 60 - 0.25p$ $\quad\quad$ $TC = 320 + 8Q^2$

(i) Find the Firm's profit maximizing price and output.

(ii) Calculate the firm's profit at the profit maximizing output. (06 marks)

(c) (i) What are the conditions necessary for a Monopolistic Firm to engage in price discrimination?

(ii) Using illustrations explain how a monopolist can increase its revenue through price discrimination. (11 marks)