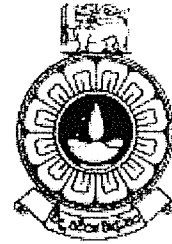


THE OPEN UNIVERSITY OF SRI LANKA
 DEPARTMENT OF TEXTILE AND APPAREL TECHNOLOGY
 POST GRADUATE DIPLOMA / MASTER OF TECHNOLOGY IN
 APPAREL PRODUCTION AND MANAGEMENT
 TTM 7154 – MANAGERIAL ECONOMICS
 FINAL EXAMINATION – 2015 / 2016
 DURATION – THREE HOURS



DATE: 16th NOVEMBER 2016

TIME: 1330- 1630

Answer any four (04) questions.

All questions carry equal marks.

1. "It is assumed that the principal objective of a firm is to maximize its profit, known among economists as Profit Maximization hypothesis. But there are other economic and non economic objectives the firms can pursue. Therefore it is crucial to be precisely aware of a firm's goals as different goals can lead to very different management decisions given the same limited amount of resources."
 - i. What are the economic and non economic objectives of firms? Explain with examples.
 - ii. Except Profit Maximization hypothesis, what are the other theories that have been developed to explain the behavior of firms?
 - iii. "Different goals can lead to very different management decisions" Discuss with examples. (25 Marks)

2. a. Consider the information in relation to the goods 'x' and 'y' given below.

Good 'x'	Good 'y'
<ul style="list-style-type: none"> • Large number of substitutes available. • Small percentage of income spent on the good. • A necessity. 	<ul style="list-style-type: none"> • No substitutes available. • Large percentage of income spent on the good. • A luxury.

- i. What could be the nature of elasticity of the goods 'x' and 'y'? Justify your answer.
- ii. To increase the revenue generated from 'x' and 'y', how should the prices of 'x' and 'y' be changed? Explain using illustrations. (9 Marks)

b. Explain whether you "agree" or "disagree" with the following statements. Provide illustrations where possible.

- i. The higher the cost of production the higher is the Price Elasticity of Supply.
- ii. The Income Elasticity of Demand for public transportation (bus and train) is negative, therefore public transportation can be considered as an inferior good.
- iii. The higher the substitutability of two goods, the higher is the Cross Price Elasticity.
- iv. The value of Cross Price Elasticity between bread and butter is positive.

(16 Marks)

3. a.

- i. Why is that the time period encompassing long run differs from industry to industry? Explain using an example.
- ii. Could a firm continuously increase the output by adding increasing quantities of labor to the fixed capital? Explain using illustrations. (10 Marks)

b. "A profit maximizing firm should hire labor until its Marginal Product of Labor equals to its wage rate ($MRP_L = W$)". Do you agree? Explain. (5 Marks)

c.

- i. What is meant by the optimum combination of inputs? Explain using a map of ISO - Quant and ISO - Costs.
- ii. How would the change in relative prices of inputs affects the least cost combination of inputs? Explain using illustrations. (10 Marks)

4. a. Explain your "agreement" or "disagreement" with the following statements. Use illustrations to explain your answers.

- i. In the short run, manager of a Perfectly Competitive firm shut down the operations if the price is below the Average Variable Cost (AVC).
- ii. The supply curve of the Perfectly Competitive firm is that part of the Marginal Cost curve which is above its Average Variable Cost curve.
- iii. Perfectly Competitive firm maximizes its short run profit at the point where its Marginal Cost is equivalent to its price ($MC = P$). (15 Marks)

b.

- i. Using illustrations explain how economic profit is eliminated in the long run by the entry of new firms in a perfectly competitive markets.
- ii. Explain whether Perfectly Competitive firms can achieve maximum allocative efficiency in the long run.. (10 Marks)

5. a. Under what kind of market the garment manufacturing firms operate? Justify your answer.
- b. Explain how the theoretical knowledge in relation to the market you have identified in the part (a) helps a manager in a garment manufacturing firm to make effective decisions? Provide illustrations where possible.

(25 Marks)

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