THE OPEN UNIVERSITY OF SRI LANKA
BACHELOR OF MANAGEMENT STUDIES (HONOURS) DEGREE PROGRAMME
LEVEL: 05
MCU3207/MSU5507/AFU 5507: MANAGERIAL ECONOMICS
CONTINUOUS ASSESMENT TEST- 2023
DURATION – TWO (02) HOURS

098

DATE: 11 February 2023 **TIME: 01.30 p.m. – 03.30p.m.**

INSTRUCTIONS:

- ***Answer all the questions (03). (Question 01 – 40 marks, question 02 & 03- 30 marks each.)***
- ***Use of non-programmable calculator is allowed.***

Question No. 01

A "Firms specifically consider the Present Value (PV) of future stream of income"

i. How is the present value of future income calculated? Explain.

. ii. What makes firms specifically consider PV of future income? Explain. **(07 Marks)**

B) i. What is the role of profit in a free market system? Explain.

ii." Considering the legal and ethical constrains in business environment it is not possible for modern day firms to entirely concentrate on maximizing profit" Elaborate with examples. **(15 Marks)**

C)i. Use the demand equation of a monopolist given to fill in the table below, consider quantity from unit 1 to unit 6.

Q = 32 - 0.2p **(Q – Output, P - Price)**

Quantity	Price	Total Revenue (TR)	Average Revenue (AR)	Marginal Revenue (MR)
1				

ii. Using an illustration explain the relationship between AR and MR.

iii. Based on the demand equation given above, find the revenue maximizing price and output.

iv. Using an illustration explain the difference in the pricing and output decision of the Monopolist, if it aims at profit maximization instead of revenue maximization. **(18 Marks)**

(Total – 40 Marks)

Question No.02

A) i. What are the determinants of Cross Price Elasticity of Demand of an item? Explain.

ii. Price of good "A" has gone up by 10% and as a result the demand for good "B'' has come down by 7%, demand for good "C" has increased by 8%, but there has been no impact on the demand for good "Y".

Identify the relationship between good "A" and other four items B, C and Y. Use illustrations and examples to explain your answer. **(15 Marks)**

B) The demand and supply equations of a good is given as;

$Q_d = 240 - 8p$; $Q_s = -80 + 12p$ (Q – quantity in units, P – price in Rupees)

i. Find the equilibrium price and quantity.

ii. Calculate the Price Elasticity of Demand and Price Elasticity of Supply at the equilibrium point.

iii. If a unit tax of Rs. 5/= is imposed on the supply find the new equilibrium price and quantity. How would the tax amount is shared between consumers and suppliers. Explain the answer using illustrations.

iv. Is there a relationship between the demand and supply coefficients and how the tax is shared? Explain. **(15 Marks)**

(Total – 30 Marks)

Question No. 03

A) How would the fixed and variable factors of production be considered in differentiating short and long run production? Explain with an example. **(06 Marks)**

B) Consider the short run production function given below.

Q_L	TP_L	AP_L	MP_L	MR	MRP_L
1	03			300	
2			07		
3			14		
4			12		
5			09		
6	49				
7	49				
8	48				

Q_L- Quantity of Labour TP_L-Total Product of Labour AP_L- Average Product of Labour MP_L-Marginal Product of Labour, MR-Marginal Revenue, MRP_L- Marginal Revenue Product of Labour.

Each unit that is produced is sold at the same price and the wage rate of a labour = Rs. 2700/-

i. Fill in the table and identify the stages of production. Explain your answer with illustrations.

ii. What is the relationship between average product and the marginal product of labor? Explain.

iii. Could a rational entrepreneur maintain the production level at any stage identified in part **i.**? Why or why not? Explain.

iv. How many workers should a profit maximizing firm employ? Explain.

(24 Marks)

(Total-30 Marks)

- **Rights Reserved** -