

THE OPEN UNIVERSITY OF SRI LANKA
FACULTY OF MANAGEMENT STUDIES



BACHELOR OF MANAGEMENT STUDIES HONOURS DEGREE
PROGRAMME
LEVEL 5

AFU 5302 – MANAGERIAL ECONOMICS
FINAL EXAMINATION – 2024 / 2025
DURATION – THREE (03) HOURS

DATE: 15th JUNE 2025

TIME: 9.30 a.m. – 12.30 p.m.

INSTRUCTIONS:

- This question paper consists of **six (06) questions**.
- Answer any **five (05) questions**. All questions carry equal marks.
- Please **write your index number** at the top of the answer sheet in the provided space.
- This question paper consists of **three (03) typed pages**.
- Attach the answer sheets to your answer booklet.
- Use of non-programmable calculator is allowed.

Question No. 01

- A) “Managerial Economics is the use of economic analysis in making business decisions involving the best use of the scarce resources of a firm”. Elaborate with examples. (07 Marks)
- B) i. What are the functions of profit? Explain. (03 Marks)
- ii. Using illustrations explain the difference in behavior when a firm that operates in a shoe industry aims at maximizing revenue instead of profit. (06 Marks)
- iii “The firms should aim at maximizing present or discounted value of all future profits”. What is meant by the given statement? Explain. (04 Marks)

Question No. 02

- A) i. Using examples and illustrations explain how the knowledge in Price Elasticity of Demand can be effectively used by a business manager in deciding how to manipulate the price of an item in increasing the revenue generated from the same. (06 Marks)
- ii. Providing reasons explain difference in the nature of price elasticity of demand for fuel in the short and the long run. (04 Marks)
- B) i. What is the major determinant of cross price elasticity of demand for a good? (02 Marks)
- ii. How would the substitutability of two goods affect the cross-price elasticity of the given two goods? Explain with an example. (02 Marks)
- iii. Consider the information given in the table below.

Price of "X" (Rs)	Quantity demanded (Units)	
	Good A	Good B
120/=	16	20
148/=	22	16

Calculate the Cross Price Elasticity of Demand between good X and goods A & B, and identify the nature of relationship between x and other two goods. **(06 Marks)**

Question No. 03

- A) How is the short and long run production of an industry differentiated? Could the time encompassing long run be the same for all the industries? Explain using 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				
2		05			
3			14		
4		09		Rs. 400	
5		09			
6	49				
7			00		
8	48				

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

The price of the good remains the same at all output levels.

- Fill in the table and identify the stages of production. Explain your answer with illustrations.
- What stage should the rational firm limit its production? Why?
- If the wage rate is Rs. 3600/=, how many workers should a profit maximizing firm employ? Explain.

(14 Marks)

Question No. 04

- A) i. Suppose market demand and supply equations in a perfectly competitive industry given as;
 $Q_D = 12400 - 20P$ and $Q_S = -7600 + 30P$; how could the firms in this industry make the pricing decision of its product? Explain using illustrations. **(05 Marks)**
- ii. If the equilibrium price of the product of a Perfectly Competitive firm is equal to its Marginal Cost (MC) could the firm maximize its profit? Explain using an illustration. **(05 Marks)**
- iii. The equilibrium price of a perfectly competitive market is Rs.20/= and the marginal cost function is; $MC = 8 + 0.2Q$. If the firm is currently producing an output of 50 units, could the firm maximize its profit? Explain. **(04 Marks)**

- B) Using illustrations comment on the level of economic efficiency of Perfectly Competitive markets in the long run. (06 Marks)

Question No. 05

- A) i. "A Monopolistic market is characterized by strong entry barriers including Economies of Scale". Do you agree? Explain. (05 Marks)
 ii. Identify the advantages of monopolistic industries. (03 Marks)
- B) a. Demand (Q_d) and Total Cost (TC) equations of a Monopolist given as;
 $Q_d = 68 - 0.5p$ $TC = 120 + 2Q^2$ (Q – quantity in units, P – Price in Rupees)
 i. Find the profit maximizing price and output.
 ii. Calculate the profit of the firm.
 iii. If the firm aims at maximizing revenue, find the revenue-maximizing price and output (08 Marks)
- b. Is it possible for a Monopolist to always profitable in the short run? Explain using illustrations. (04 Marks)

Question No. 06

- A) i. "Firms in monopolistically competitive firms are "independent" and firms in oligopoly industry are "interdependent" What is meant by the given statement? Explain using examples. (06 Marks)
 ii. Why the firms operate in a monopolistically competitive markets have certain degree of power to determine the price of the item it offers to the market? Explain using examples. (05 Marks)
- B) i. Could the firm that operate in cellular industry in Sri Lanka collude, in other words act together and behave like a monopoly in determining the price and output of the services they offer? (04 Marks)
 ii. What is meant by "Entry – Limit Pricing"? Explain using illustrations. (05 Marks)

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