

THE OPEN UNIVERSITY OF SRI LANKA
FACULTY OF MANAGEMENT STUDIES



BACHELOR OF MANAGEMENT STUDIES HONOURS
BACHELOR OF MANAGEMENT STUDIES HONOURS IN ACCOUNTING AND
FINANCE
BACHELOR OF MANAGEMENT STUDIES HONOURS IN HUMAN RESOURCE
MANAGEMENT
BACHELOR OF MANAGEMENT STUDIES HONOURS IN MARKETING
MANAGEMENT

LEVEL 3

AFU 3402 - MICROECONOMICS
FINAL EXAMINATION – 2024 / 2025
DURATION – THREE (03) HOURS

DATE: 21st 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) i. Using an example define “The Law of Demand”. (02 Marks)
- ii. Are there any goods for which the relationship between price and quantity demanded does not confirm the law of demand? Explain with examples. (04 Marks)
- iii. What are the non-price determinants of a good? Explain. (04 Marks)
- B) Consider the information given below in relation to good “X”.

Price (Rs.)	Quantity Demanded (Units)	Quantity Supplied (Units)
00	80	-64
08	48	00

- i. Derive the demand and supply equations of good “X”. (03 Marks)
- ii. Find the equilibrium price and quantity of good “X”? (02 Marks)

- iii. If the government provides a unit subsidy of Rs.3/= on supply, find the new equilibrium price and quantity. How is the benefit of the subsidy shared between consumers and producers?

Explain the answer using an illustration.

(05 Marks)

Question No. 02.

- A) i. Using an example define the concept of Income Elasticity of Demand. (02 Marks)

- ii. How could the sign and the value of the income elasticity of demand coefficient be used in identifying the nature of the good? Explain with examples. (05 Marks)

- B) If the demand function of good "X" is given as; $Q_d = 96 - 8P$ (Q- quantity, P – Price), find the price elasticity of demand at price Rs. 6/=. Given the coefficient, how would the change in price of X impact the revenue generated from the same? Explain using illustrations. (05 Marks)

- C) Explain whether you "Agree" with the following statements. (Use illustrations were possible)

- i. The higher the cost of production, the higher is the Price Elasticity of Supply of that good.
ii. The value of Cross Price Elasticity between coffee and fresh milk is "-", and between coffee and tea, it is "+". (08 Marks)

Question No.03.

- A) i. Identify the major difference in cardinal Utility Analysis and ordinal Utility Analysis. (03 Marks)

- ii. What is meant by the "Law of Equi-Marginal Utility"? Explain. (04 Marks)

- B) Consider the following given details of goods "X" and goods "Y".

Quantity	1	2	3	4	5	6	7	8
MU _X	45	42	39	36	33	30	27	24
MU _Y	60	54	48	42	36	30	24	18

Note: MU_X – Marginal Utility of good "X" MU_Y – Marginal Utility of good "Y"

Price of good "X" is Rs.3/= and price of good "Y" is Rs.6/=.

- i. If a person has Rs. 42/= to be spent on the two goods, find the quantities that maximize the person's satisfaction.
ii. Suppose price of "Y" drops to Rs.3/= similar to "X", find the quantities that maximize the person's satisfaction if the person income at present is Rs.36/=. (08 Marks)
C) What is meant by "Marginal Rate of Substitution"? Explain using an illustration. (05 Marks)

Question No.04.

A) Differentiate between;

a. fixed factor inputs and variable factor inputs.

b. short run production and long run production.

(06 Marks)B) Consider the short run production function given below; (Labour – variable input, Capital – fixed input). TP_L – Total Product, AP_L – Average and MP_L – Marginal products

Q_L	0	1	2	3	4	5	6	7	8
TP_L	0	05	12	27	40	50	54	54	52
AP_L									
MP_L									

i. Fill in the table and identify the stages of production. Explain the answer using an illustration.

ii. What stage should the rational firm limit its production? Justify your answer. **(09 Marks)**

C) Using illustration explain how scale economies determine the “U” shape of the long run average cost curve.

(05 Marks)**Question No.05.**

A) i. “Given the type of assumptions on which the model perfect competition is built, it is difficult to find a market that ideally fits in to the given model in the real world” Elaborate.

(06 Marks)

ii. Are the firms that operate in perfectly competitive markets price makers? Explain using illustrations.

(04 Marks)

B) i. What is meant by a “Natural Monopoly”? Explain using an illustration.

(04 Marks)

ii. Could a monopolist always make profit in the short run? Explain using an illustration.

(04 Marks)

iii. Identify possible advantages of a monopoly.

(02 Marks)**Question No.06.**

A) i. What are the major characteristics of a Monopolistically Competitive industry? Explain.

(04 Marks)

ii. Given the nature of the industry, is it possible for monopolistically competitive firms to determine the price of the product/service it offers? Explain.

(04 Marks)

iii. Comment on the allocative and productive efficiency of the monopolistically competitive industry in the long run.

(04 Marks)

B) i. Firms that operate in Oligopoly markets are interdependent. What is meant by Interdependency? Explain using examples.

(05 Marks)

ii. What is meant by a “Duopoly”? Explain using an example from the domestic market.

(03 Marks)

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