

THE OPEN UNIVERSITY OF SRI LANKA
FACULTY OF MANAGEMENT STUDIES



BACHELOR OF MANAGEMENT STUDIES HONOURS DEGREE
PROGRAMME

LEVEL 3

AFU 3572 – 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. Differentiate between “Quantity Demanded” and “Demand” of a good.
ii. What is meant by “Effective Demand”? Explain. **(06 Marks)**
- B) It is expected that the price of properties to go up in the future, how would the buyers and sellers in the market respond to this? Explain using illustrations. **(05 Marks)**
- C) Using illustrations explain the impact of the following changes on the market of given item.
i. Price of ingredients necessary to make bakery items has gone up, market for bakery items.
ii. There has been a drastic increase in the price of electricity, market for solar panels.
iii. More and more people have entered into turmeric farming, market for turmeric. **(09 Marks)**

Question No. 02

- A) i. Identify three major determinants of price elasticity of demand for a good and using examples explain how each of these affect the nature of price elasticity of demand. **(06 Marks)**
ii. It is estimated that price elasticity of demand coefficient of biscuits is “- 0.52” and of pizzas it is “- 1.24”, if the revenue generated from these items to be increased, how should the price of the two items be manipulated. Explain using illustrations. **(06 Marks)**
- B) Using the knowledge in concept of Elasticity, explain whether you “Agree” with the following statements.
i. The higher the substitutability of a good, the higher is the value of cross price elasticity.

- ii. It is estimated that the Income Elasticity of Demand coefficient of restaurant meals is + 1.12, therefore restaurant meals should be considered as a necessary item. **(08 Marks)**

Question No. 03

- A) i. How is the consumer equilibrium explained under Cardinal Utility Analysis?
 ii. Using illustrations explain what is meant by the Law of Diminishing Marginal Utility. **(08 Marks)**
- B) Consider the details given in the table below.

Quantity	0	1	2	3	4	5	6	7	8
TU _x	0	48	92	132	168	200	228	252	272
TU _y	0	84	162	234	300	360	414	462	504

Total Utility derived from good "X" is (TU_x) and from good "Y", it is (TU_y).

If the price of good X is Rs. 4/= and price of good Y is Rs. 6/= and the person has Rs. 72/= to be spent on both goods, find the quantities that maximize consumer satisfaction. **(07 Marks)**

- C) How is the consumer equilibrium explained under Ordinal utility analysis? Explain using illustrations. **(05 Marks)**

Question No.04

- A) i. Using examples differentiate between fixed factor inputs and variable factor inputs. **(04 Marks)**
 ii. Would the time encompassing long run be the same for all the industries? Explain using an example. **(05 Marks)**
- B) Consider the short run production function of a good given below.

Labour – Variable factor, Capital – Fixed factor; TP – Total product, AP – Average product, MP – Marginal product.

Q _L	0	1	2	3	4	5	6	7	8
TP _L	00	04	10	24	36	45	49	49	48
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.
 iii. Identify the relationship between average and the marginal products of the variable factor. **(11 Marks)**

Question No.05

- A) i. Would the demand curve of a Perfectly Competitive industry and the demand curve faced by the Perfectly Competitive firm in the given industry the same? Explain using illustrations. **(05 Marks)**
 ii. Could firms operate in perfectly competitive industry determine the price of the item it sells in the market? Explain using illustrations. **(05 Marks)**

- B) i. Could a loss making Perfectly Competitive firm in the short run still continue to operate in the market? Explain using illustrations. **(05 Marks)**
- ii. Comment on the allocative and productive efficiency of perfectly competitive industry in the long run. **(05 Marks)**

Question No.6

- A) i. Monopolistic industry is characterized by strict barriers to entry. What are they? **(05 Marks)**
- ii. Could a monopoly determine both the price of its product and the output to be produced at the same time? Explain using an illustration. **(04 Marks)**
- B) i. Providing examples explain the characteristics of Monopolistically Competitive industry. **(05 Marks)**
- ii. How the firms in monopolistically competitive and oligopoly markets use non – price competitive methods to compete with their rival firms? Explain using examples. **(06 Marks)**

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