

THE OPEN UNIVERSITY OF SRI LANKA
FACULTY OF MANAGEMENT STUDIES



BACHELOR OF MANAGEMENT STUDIES HONOURS DEGREE
PROGRAMME

LEVEL 5

AFU 5507/AFU 5572 – 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) “The essence of the science of economics is determining optimum behavior where that behavior is subject to constraints”. Providing examples identify the constraints on managerial decisions of modern-day firms. (05 Marks)
- B) “Maximizing the present value of all future profits is equivalent to maximizing the value of the Firm”
- i. How is the present value of future stream of income calculated? Explain. (02 Marks)
 - ii. Why it is important to calculate the present value of future income? Explain. (03 Marks)
 - iii. How practical it is for the modern-day firms to only pursue the goal of profit maximization? (05 Marks)
 - iv. Using examples differentiate between “Business profit” and “Economic profit” (05 Marks)

Question No.02

- A) a. “To increase tax revenues the government should impose taxes on goods having inelastic demand than elastic demand” Do you agree? Explain using illustrations. (07 Marks)
- b. The demand and supply equations of a good given as;
- $$Q_d = 124 - 4P \quad Q_s = -44 + 8P \quad (Q - \text{quantity in units, } P - \text{price in Rupees})$$
- i. Calculate the Price Elasticity of Demand and Price Elasticity of Supply at equilibrium point.
 - ii. If a unit tax of Rs.3/= is imposed on the supply, find the new equilibrium price and quantity.

- iii. Is there a relationship between, how the tax is shared between buyers and sellers and the elasticity coefficients of demand and supply? Explain using illustrations. (08 Marks)
- B) How useful is the knowledge in the concept of income elasticity of demand in business decision making? Explain using examples. (05 Marks)

Question No. 03

- A) Is the "Law of Diminishing Marginal Returns" a short or long run theory of production? Explain. (03 Marks)
- B) Consider the short run production function given below.

Q _L	TP _L	AP _L	MP _L	MR	MRP _L
1	06				
2		07			
3			19		
4		12		Rs.200	
5	60				
6			06		
7			00		
8	64				

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. Each unit is sold at the same price.

- Fill in the table and identify the stages of production. Explain your answer with illustrations.
- What stage should the rational firm limit its production? Explain.
- If the wage rate is Rs.2400/=, how many workers should a profit maximizing firm employ? Explain.
- Identify the relationship between average and marginal product of the variable factor. (17 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. Could perfectly competitive firm that makes losses in the short run continue to operate in the market? Explain using illustrations. (05 Marks)
- B) i. The total cost of a perfectly competitive firm given as; $TC = 480 + 4Q + 0.1Q^2$
 If the unit price of the item sold is Rs. 28/=:, how many units should be sold to maximize profit in the short run?
- ii. Calculate the economic profit of the firm.
- iii. Based on the answer to part ii, what could be the long run outcome of the industry? Explain. (10 Marks)

Question No. 05.

- A) i. What is meant by a "Natural Monopoly"? Explain using an illustration (04 Marks)
 ii. Could a Monopoly determine price of its product and the output at the same time? Explain using illustrations. (04 Marks)
- B) Demand (Q_d) and Total Cost (TC) equations of a Monopolist given as;
 $Q_d = 60 - 0.5p$ $TC = 98 + 2Q^2$ (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
 iv. Would the profit maximizing price and the output of the firm fall within the elastic or inelastic range of the demand curve? Explain using illustrations. (12 Marks)

Question No. 06.

- A) a. What is meant by "Break - Even analysis"? Explain using an illustration. (05 Marks)
 b. The total fixed cost (TFC) of a firm given as Rs. 24,000/=-, the average variable cost of the firm (AVC) is given as Rs. 80/=- and the unit price of the item produced is Rs. 120.
 i. Calculate the profit contribution.
 ii. Find the breakeven rate of output?
 iii. What is the rate of output that should be produced to make a profit of Rs. 100,000/=-? (07 Marks)
- B) i. What is meant by "Degree of Operating Leverage (DOL)"? Explain.
 ii. How useful is DOL in managerial decision making? Explain. (08 Marks)

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