

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 – 2025 / 2026
DURATION – THREE (03) HOURS

DATE: 28th JUNE 2026

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. “Microeconomics focuses on the behavior of individuals and firms in making decisions regarding the allocation of resources”. Elaborate with examples. **(06 Marks)**
- ii. How would economists generally classify resources, i.e. factors of production in a country? Explain using examples. **(04 Marks)**
- B) “Countries use different economic systems to find answers to fundamental economic problems that arise due to scarcity of resources.” Elaborate using examples **(10 Marks)**

Question No.02

- A) i. What is meant by “Effective Demand”? Explain using examples. **(04 Marks)**

- ii. If the price of sanitary items is expected to rise sharply in the immediate future, how would this affect the current market conditions for sanitary items? Explain using illustrations.

(06 Marks)

- B) The demand and supply functions of good "X" given as;

$$Q_d = 160 - 8p \text{ (Demand)} ; Q_s = -80 + 12p \text{ (Supply)} \text{ (Price in rupees and quantity in units)}$$

- i. Find the equilibrium price and quantity.

(03 Marks)

- ii. Suppose a maximum legal price of Rs.9/= is imposed on the good X.

- a. How would this affect the market of X?
b. What are the economic consequences of this move? Provide illustrations to explain your answer.

(07 Marks)

Question No.03

- A) i. If the good "X" has a very few close substitutes and it is a necessity, what could be the nature of price elasticity of demand of the given item? Justify your answer.

(03 Marks)

- ii. If the firm intends to increase the revenue generated from good X by manipulating its price, how could this objective be achieved? Explain using illustrations.

(05 Marks)

- B) Using the knowledge in concept of Elasticity, explain whether you "Agree" with the following.

- i. While price elasticity of demand for soap is relatively inelastic, it is relatively elastic for specific brands of soap, for example Lux.

- ii. Unbranded clothing is found to have negative income elasticity of demand; therefore, unbranded clothing should be considered as inferior good.

- iii. The value of cross price elasticity between Pepsi and Coke should be lower because these two items are close substitutes.

(12 Marks)

Question No.04

- A) i. Using examples differentiate between fixed factor inputs and variable factor inputs.

(04 Marks)

- ii. "A firm uses only variable factor inputs in the short run, whereas it uses both fixed and variable factor inputs in the long run." Do you agree or disagree with this statement? Justify your answer with an example.

(06 Marks)

- B) Consider the 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	02	06	12	24	30	35	35	32
AP_L									
MP_L									

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

ii At what stage should the rational firm limit its production? Justify your answer.

(10 Marks)

Question No.05

A) i. Are the Perfectly Competitive firms price makers or price takers? Justify your answer using illustrations. **(05 Marks)**

ii. If the price of the product the Perfectly Competitive firm offers is less than its Average Variable Cost, could the firm continue to operate? Explain using illustrations. **(05 Marks)**

B) i. Identify the barriers to entry in Monopoly market. **(05 Marks)**

ii. What is the nature of the demand curve faced by the monopolist? Being the only firm in the industry could it determine both the price and the output at the same time? Explain using illustrations. **(05 Marks)**

Question No.6

A) i. Identify the characteristics of Monopolistically Competitive markets. **(04 Marks)**

ii. What is the nature of demand curve faced by monopolistically competitive firms? Explain providing illustrations. **(03 Marks)**

iii. Could monopolistically Competitive firms determine the price of the product it offers? Explain using examples. **(04 Marks)**

B) i. Using examples explain the nature of oligopoly industry. **(05 Marks)**

ii. One of the models that explains the behavior of oligopolistic firms is the kinked demand curve model. What is meant by the kinked demand curve? Explain using an illustration. **(04 Marks)**

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