

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 5

AFU 5302 - MANAGERIAL ECONOMICS

FINAL EXAMINATION – 2025 / 2026

DURATION – THREE (03) HOURS

DATE: 20th JUNE 2026

TIME: 1.30 p.m. – 4.30 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 **four (04) typed pages**.
- Attach the answer sheets to your answer booklet.
- Use of non-programmable calculator is allowed.

Question No. 01

- A) i. “Managerial Economics acts as a link between economic theory and business practice.”
Elaborate with examples. (07 Marks)
- ii. Why do the firms aim at maximizing the present value of future stream of income?
Explain. (05 Marks)
- B) i. The demand function of a good is given as; $Q_d = 24 - 0.5P$, Q – Quantity in units and P-
price). Based on the above, fill in the following table from quantity 1 to 6 units.

Quantity (Units)	Price (Rs.)	TR (Total Revenue)	AR (Average Revenue)	MR (Marginal Revenue)
1				
2				
3				
4				
5				
6				

- ii. Based on the calculations identify the relationship between AR and MR and use illustrations to explain your answer. (08 Marks)

Question No. 02

- A) i. Using examples differentiate between “Income Elasticity of Demand” and “Cross Price Elasticity of Demand.” (04 Marks)
- ii. A clothing store found that the income elasticity of demand for its unbranded clothing is “- 0.28”, for branded clothing it is “+ 1.24” and for children’s wear it is “+ 0.48”.
- a. Classify the given items in line with the income elasticity coefficients. Justify your answer.
- b. If the economy has gone into recession and the consumer income has dropped by 5%, how would this affect the total revenue of the clothing store. (10 Marks)
- B) Consider the information given in the table below.

Price of “X” (Rs)	Quantity Demanded (Units)	
	Good A	Good B
240/=	84	128
300/=	72	164

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

Question No. 03

- A) “The distinction between short or long run Production is entirely based on the flexibility of factor inputs used by the firm”. Do you agree? Explain using an example. (05 Marks)
- B) Consider the short run production function given below.

Q _L	TP _L	AP _L	MP _L	MR	MRP _L
1	04				
2			08		
3		09			

4	36				
5			04		
6			02	Rs. 500	
7		06			
8	40				

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 output is sold at the same price.

- Fill in the table and identify the stages of production. Explain your answer with illustrations.
- In the short run the rational firm should only be producing in stage II; Why? Explain.
- If the wage rate is Rs. 4500/=:, how many workers should a profit maximizing firm employ? Explain. (15 Marks)

Question No. 04

- A) i. If the demand and supply functions of a perfectly competitive industry are given as; $QD = 24000 - 120P$ and $QS = - 12000 + 180P$; find the price a firm in the given industry could sell the product, the nature of the demand curve it faces, and its' average revenue and marginal revenue? Explain the answer using illustrations. (07 Marks)
- ii. A perfectly competitive firm offers its product at Rs.48/=:, and its total cost function is; $TC = 240 + 8Q + 0.2Q^2$.
- Find the profit maximizing output of the firm.
 - Calculate the economic profit/loss of the firm. (06 Marks)
- B) "Although Perfectly Competitive market model is rare in the real world, it is highly useful when it comes to determining the level of economic efficiency in markets of different nature." Do you agree? Explain highlighting the long run equilibrium of the given industry. (07 Marks)

Question No. 05

- A) i. "Absolute market power due to strong entry barriers enables the monopolist to determine both the price of the good and the output it offers at the same time". Taking the nature of demand curve the monopolist faces, explain whether you agree with the given statement. (05 Marks)
- ii. What is a "Natural Monopoly"? Explain using an illustration. (04 Marks)
- B) a. Demand (Q_d) and Total Cost (TC) functions of a Monopolist given as; $Q_d = 96 - 0.5p$ and $TC = 240 + 2Q^2$ (Q – Quantity in units, P – Price in Rupees) respectively.

- i. Is this a short run or long run situation? Justify your answer.
 - ii. Find the profit maximizing price and output.
 - iii. Calculate the profit of the firm.
 - iv. If the firm aims at maximizing revenue, find the revenue-maximizing price and output.
- (11 Marks)**

Question No. 06

- A) i. "In spite of having no entry and exit barriers, monopolistically competitive firms unlike perfectly competitive firms have a certain degree of control over the product they offer." Providing examples elaborate. **(06 Marks)**
- ii. Using an illustration comment on the economic profitability, allocative and productive efficiency of long run equilibrium of monopolistically competitive firms. **(06 Marks)**
- B) i. What is meant by "Interdependence" of oligopoly markets? Explain. **(03 Marks)**
- ii. One of the models that explains the behavior of Oligopoly markets is the "Kinked Demand curve" model. What is the rationale behind the Kinked Demand curve? Explain using illustrations. **(05 Marks)**

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