



UNIVERSITY OF RUHUNA

FACULTY OF MANAGEMENT AND FINANCE

Bachelor of Business Administration Degree Programme 1000 Level Semester I
(Repeat) Examination (September / October 2020)

Academic Year 2019/2020

BBA 1105 - Microeconomics

Duration : Three hours

The Question Paper contains Six (06) questions.

Answer only Five (05) Questions.

Use of Calculator is permitted.

Question 01

- (I.) Fill the missing entries in the following cost table. Write the correct answers with the question numbers in your answer script.

Output	Total Cost	Total Fixed Cost	Marginal Cost	Average Total Cost	Average Variable Cost
0	20	(i)	-	-	-
1	40	20	20	(ii)	(iii)
2	(iv)	20	10	(v)	(vi)
3	(vii)	(viii)	(ix)	22	(x)
4	86	(xi)	26	(xii)	16.5

(0.5 Marks*12 = 06 Marks)

- (II.) The marginal revenue of a firm in Monopoly market is always less than its corresponding product price. Explain by using appropriate diagrams.

(04 Marks)

- (III.) Explain how the entry of firms into its industry affects the demand curve face by a monopolistic competitor.

(04 Marks)

[Total 14 Marks]

Question 02

- (I.) Define the concentration ratio and explain its shortcomings in brief. (06 Marks)
- (II.) Discuss about Kinked-demand curve as a non-collusive pricing model to examine oligopolistic pricing and output behavior. (08 Marks)
- [Total 14 Marks]

Question 03

- (I.) Explain two characteristics of the modern firms that weaken the neoclassical assumptions of profit maximization. (04 Marks)
- (II.) Briefly discuss the giving of cash or non-cash gifts in terms of utility maximization. (04 Marks)
- (III.) Explain the properties of indifference curve using appropriate diagrams. (06 Marks)
- [Total 14 Marks]

Question 04

- (I.) Kevilton Company has estimated its production function as follows:

$$Q = 40LK - 10L^2 - 5K^2$$

Where, Q= Quantity of output, L = Quantity of labor, K= Quantity of capital

Labor cost is Rs.1500 and capital cost is Rs.4500.

Kevilton Company wants to maximize output subject to the cost constraint of Rs. 322,500.

- (a.) What amounts of labor and capital should be used by the Kevilton Company? (05 Marks)
- (b.) What is the total output Kevilton Company can obtain from the above combination? (03 Marks)
- (II.) Suppose that the market determined price in the Perfectly Competitive industry is Rs. 600.
- Total cost equation of an individual firm in a Perfectly Competitive industry is given below.

$$TC = 3000 + 12Q + 6Q^2$$

Where, Q= Quantity of output, TC= Total Cost

(a.) What is the firm's profit-maximizing output level?

(03 Marks)

(b.) Calculate the firm's profit at the profit maximizing output level.

(03 Marks)

[Total 14 Marks]

Question 05

(I.) Briefly explain the main characteristics of Isoquants.

(06 Marks)

(II.) Discuss the obstacles to establish and maintain Collusions.

(08 Marks)

[Total 14 Marks]

Question 06

Briefly explain the following concepts.

(I.) Positive Economics

(II.) Normative Economics

(III.) Effective Demand

(IV.) Latent Demand

(V.) Marginal Rate of Technical Substitution

(VI.) Marginal Rate of Substitution

(VII.) Cartels

[02 Marks*7 = Total 14 Marks]
