

**UNIVERSITY OF RUHUNA****FACULTY OF MANAGEMENT AND FINANCE****Bachelor of Business Administration Degree Programme 1000 Level Semester I****Examination (September / October 2020)****Academic Year 2019/2020****BBA 11033 - 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	Marginal Cost	Average Total Cost	Average Variable Cost
0	40	-	-	-
1	(i)	40	(ii)	(iii)
2	(iv)	20	(v)	(vi)
3	(vii)	32	(viii)	(ix)
4	(x)	40	(xi)	(xii)

(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 with diagrams how price rate regulations can be used to regulate the Monopolistic market.

(04 Marks)

[Total 14 Marks]

Question 02

- (I.) "Firms in an oligopoly producing homogeneous products are not facing the kinked demand curve". Do you agree with the above statement? Explain your answer. (06 Marks)
- (II.) "The Prisoners dilemma provides important insights into the strategic behavior of Oligopoly". Explain the above statement by using examples. (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 explain the Theory of Utility-Maximization. (02 Marks)
- (III.) Assuming that you are planning to give a gift to your mother on her 60th birthday, what is the most suitable option that you can select to give her high satisfaction with reference to marginal-utility analysis? (04 Marks)
- (IV.) Indifference curves are down sloping and convex to origin. Explain your answer by using appropriate diagrams. (04 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.) "The demand for resource is a derived demand". Explain.

(02 Marks)

(II.) Explain the three main factors that determine the elasticity of demand for a resource.

(06 Marks)

(III.) Explain how the entry of firms into its industry affects the demand curve face by a monopolistic competitor and how that, in turn, affects its economic profit.

(06 Marks)

[Total 14 Marks]

Question 06

Briefly explain the following concepts.

(I.) Positive Economics

(II.) Normative Economics

(III.) Effective Demand

(IV.) Isoquant

(V.) Marginal Rate of Technical Substitution

(VI.) Collusion

(VII.) Concentration Ratio

[02 Marks*7 = Total 14 Marks]
