	UNIVERSITY OF RUHUNA FACULTY OF GRADUATE STUDIES	No. of Pages: 03 No. of Questions: 06 Total Marks: 60
PDBA/MBA 101 – Business Economics		
Master of Business Administration Degree Programme		Duration: Three Hours
End Semester Examination - Part I Semester I - November 2018		

- **Answer four questions only.**
- **Scientific calculators are allowed.**

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(1) (A) Describe the factors that affect to earn zero profit in a perfectly competitive firms in the long run.

(04 Marks)

(B) Briefly explain the concept of price discrimination.

(02 Marks)

(C) What conditions must hold for a firm to be able to practice price discrimination?

(04 Marks)

(D) "A monopoly firm produces an output that is less than the efficient level and this results in a deadweight loss to society".

Explain above statement using appropriate diagrams.

(05 Marks)

(Total Marks 15)

(2) (A) "A firm operating under monopolistic competition has excess capacity in the long run."

Explain the long run equilibrium of a firm in monopolistic competition. Use appropriate diagrams.

(04 Marks)

(B) Explain why advertising cost are high and why firms use brand names in a monopolistically competitive industry.

(04 Marks)

(C) What do you meant by "a Cartel"?

(02 Marks)

(D) Discuss how determine price and quantity when the oligopolistic firm maximizes profit or minimizes loss in the kinked demand curve model.

(05 Marks)

(Total Marks 15)

(3) "Over time, economists have developed theories to explain the mechanisms of global trade. The main historical theories are called classical and are from the perspective of a country, or country-based. It consists of several international theories."

(A) What is Ricardo's Theory of Comparative Advantage? How it differs from Adams Smith's Theory of Absolute Advantage?

Explain your answer with suitable illustrations.

(07 Marks)

(B) Define the terms:

(i) Tariff

(ii) Quota

(03 Marks)

(C) Evaluate consequences of imposing a tariff on domestic firms and consumers as an imports controlling mechanism.

(05 Marks)

(Total Marks 15)

(4) Consider a closed economy that is characterized by the following equations. ('i' stands for interest rate in percentage points; Autonomous expenditures are in Rs. Millions).

Consumption function (C)	= 100+0.8 (Y-T)
Investment function (I)	= 150 – 10i
Government spending (G)	= 360
Tax Rate (t)	= 0.3Y
Export (X)	= 120
Import (M)	= 0.06 Y
Transaction Demand for money (Mt)	= 0.4Y
Speculative Demand for money (Msp)	= 200-8i
Supply of money (Ms)	= 480

Based on the above information;

(A) Derive the function for the IS curve related to goods market equilibrium, assuming that price level is fixed.

(02 Marks)

(B) Derive the function for the LM curve related to money market equilibrium, assuming that price level is fixed.

(02 Marks)

(C) Compute the interest rate and the level of output such that both goods and money market are simultaneously in equilibrium.

(03 Marks)

(D) Suppose the government decides to intervene the economy in increasing government expenditure by 10%? What would be the expected changes in real output and interest rate in this economy?

(04 Marks)

(E) Do you observe any crowding out effect due to increase in government expenditure? Explain how much and why.

(04 Marks)

(Total Marks 15)

(5) (A) Differentiate between economic growth and development.

(07 Marks)

(B) Discuss the economic challenges of Sri Lanka.

(08 Marks)

(Total Marks 15)

(6) Provide brief notes any three of the following.

(A) Capital budgeting

(B) Roles of the public sector in market economies

(C) Economic globalization

(D) The relationship between diminishing returns and the stages of production

(Total Marks 15)

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