

University of Ruhuna - Faculty of Technology
Bachelor of Engineering Technology, Bachelor of Information & Communication Technology
Level 2 (Semester 1) Examination, November 2019

Course Unit: TCS 2112 Business Economics

Time Allowed : 2 hours

Total Marks : 60

Answer four (04) questions only.

1. (i) Explain why scarcity is said to be the fundamental economic problem in every society. (06 Marks)
- (ii) Briefly discuss the three functions of Price Mechanism in a market economy (09 Marks)
2. (i) Define Free Goods, Normal Goods, Inferior Goods, and Economics Bad with examples (04 Marks)
- (ii) Explain the concept of **opportunity cost** with reference to your choice to enter university in two years ago. (04 Marks)
- (iii) Assume you bought a movie ticket for Rs. 500/- and you felt the film was really boring when you have halfway watched. You feel like going out of the cinema now. What factors do you take into account when you take the decision to remain or leave the film hall? (07 Marks)
3. (i) What are the two Marshallian conditions to be satisfied by a consumer to maximize his/her utility? (04 Marks)
- (ii) Given bellow is the marginal utility of two goods X and Y. Find the combination of X and Y quantities that the consumer should buy to maximize his utility, given his total income is Rs. 31/- and the prices of the two goods are $P_x = \text{Rs } 5/-$ and $P_y = \text{Rs } 8/-$ (06 Marks)

Quantity	MU _x	MU _y
1	45	72
2	40	56
3	35	40
4	30	24
5	25	8

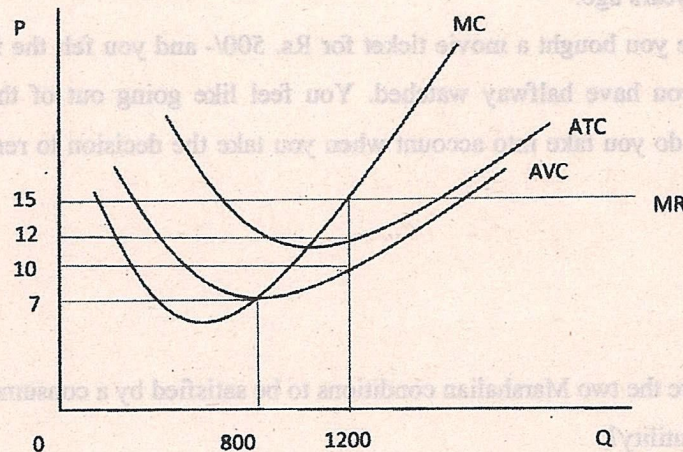
(iii) What is the utility of money unit in this example? (02 Marks)

(iv) How does the consumer change his choice if the income rises to Rs 49/-? (03 Marks)

4. (i) Discuss the difference between "Economic Profit" and "Accounting Profit".

(04 Marks)

(ii) Given below is a diagram depicting profit maximizing behavior of a single firm operating in a perfect competitive market. Answer the following questions using the information therein.



(a) Compute short run total profit (04 Marks)

(b) Compute Total Fixed Cost (TFC) (03 Marks)

(c) What is the total cost when firm is producing zero number of units (02 marks)

(d) What is the minimum price needed for the firm to survive in the short run?

(02 Marks)

5. (i) What do you mean by “minimum price” for paddy? What are the follow-up actions the government has to take to sustain a minimum price?
(06 Marks)
- (ii) USA in some years destroys a part of their wheat harvest by dumping into sea. What is the economic logic behind this practice?
(04 Marks)
- (iii) Why does the government always select Alcohol, Cigarettes and Petroleum products to tax rather than fairness cream
(05 Marks)
6. (i) What are the basic characteristics of perfect competition?
(04 Marks)
- (ii) Explain why a single supplier in perfect completion is said to be a price-taker?
(04 Marks)
- (iii) What do you mean by Natural Monopoly? Explain with an example.
(03 Marks)
- (iv) School Footwear and Biscuit industry are popular examples for Oligopoly in Sri Lanka. Discuss this statement with support from economic theory.
(04 Marks)
7. (i) Water is essential for human life whereas Coca-Cola is not. But Coca-Cola is sold at a higher price than water. How do you explain this situation?
(04 Marks)
- (ii) The demand for smart phones is ever increasing. But prices are going down over time. Explain why.
(04 Marks)
- (iii) Paddy farmers’ income goes bad to worse during the time of good harvest. Explain why this happens.
(04 Marks)
- (iv) Explain why you see advertisements on television for “Tinned fish” but not for “Fresh fish”
(03 Marks)
