



UNIVERSITY OF RUHUNA
FACULTY OF GRADUATE STUDIES

Master of Business Administration Degree Programme Semester I

Examination (February 2021)

Academic Year 2020/2021

PDBA/MBA 101: Business Economics

Duration : Three hours

The Question Paper contains 08 questions.

Answer only Six Questions

1. a. Why does a firm perform certain functions internally and others through the market?
b. Explain why profit maximization is an impossible goal for a firm.
(05 Marks for Each: Total 10 Marks)
2. a. Explain the relationship between production functions and cost functions.
b. Michelle's business produces ceramic cups using labor, clay, and a kiln. She uses labor and clay in a fixed proportion, but has only one kiln. She can manufacture 25 cups a day with one worker and 35 cups with two workers. Does this information illustrate decreasing returns to scale or a diminishing marginal product of labor? Explain the difference between diminishing marginal product and decreasing returns to scale.
(05 Marks for Each: Total 10 Marks)
3. a. The total cost of producing Q units of output is; $TC = 18 + 4Q + Q^2$. Suppose the firm operates in a perfectly competitive market and the firm faces market price $P = \text{Rs.}12$. Determine the profit-maximizing output for the firm and the corresponding profit. Should the firm produce this level of output or should it shut down? Explain briefly.
b. Explain the difference between perfect competition and monopolistic competition.
(05 Marks for Each: Total 10 Marks)

4. a. Two firms compete by advertising. Given the profit matrix for this advertising game, identify each firm's best response to its rival's possible actions. Does either firm have a dominant strategy? What is the Nash equilibrium?

		<i>Firm 1</i>	
		<i>Do Not Advertise</i>	<i>Advertise</i>
<i>Firm 2</i>	<i>Do Not Advertise</i>	1	0
	<i>Advertise</i>	2	1
		4	3

- b. Explain what is meant by Prisoner Dilemma. Does the Nash Equilibrium in the "part a" represent a prisoner dilemma?

(05 Marks for Each: Total 10 Marks)

5. a. "The Kinked demand curve model is used to explain price stability in some oligopoly markets" Explain.

- b. Why does product differentiation allow a firm to operate either in oligopoly or monopolistic competition to charge a higher price?

(05 Marks for Each: Total 10 Marks)

6. a. Why should government intervene in a market economy?

- b. What is meant by market failure? Briefly explain the reasons for market failure.

(05 Marks for Each: Total 10 Marks)

7. a. Explain the three main tools which central bank can use alter the money supply.

- b. Distinguish between demand-pull inflation and Cost-push inflation.

(05 Marks for Each: Total 10 Marks)

8. a. Explain the factors affecting Nation's competitiveness.

- b. What is Purchasing Power Parity (PPP)? Explain the implications of PPP.

(05 Marks for Each: Total 10 Marks)

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