



UNIVERSITY OF RUHUNA

FACULTY OF GRADUATE STUDIES

Degree of Master of Business Management - Academic Year 2022/2023

First Semester End Examination - June 2023

MBM 11023 – Managerial Economics

- Question paper contains Seven (07) questions.
- Answer Five (05) questions only.

Time: 03 Hours

1. I. “A sale tax imposed on a good does not necessarily increase the price by the full amount of the tax”. Explain using a diagram.

(5 Marks)

II. “Price ceiling of a good in the absence of an effective scheme of rationing is like to create a black market for the good” Explain.

(4 Marks)

III. Which of the following events would cause a movement along the demand curve for U.S. produced clothing, and which would cause a shift in the demand curve?

- a. The removal of quotas on the importation of foreign clothes
- b. An increase in the income of U.S. citizens
- c. A cut in the industry's costs of producing domestic clothes that is passed on to the market in the form lower prices.

(3 Marks)

(Total Marks 12)

2. I. Why does production eventually experience diminishing marginal returns to labor in the short run?

(4 Marks)

II. What are the reasons behind a firm experiencing economies of scale first, followed by diseconomies of scale in the long-run?

(4 Marks)

III. Show the conditions that need to be completed by a firm to determine the optimal combinations of two factors (capital and labor) using the isoquant analysis.

(4 Marks)

(Total Marks 12)

3. I. In long-run equilibrium, all firms in the industry earn zero economic profit. Why is this true?

(5 Marks)

Suppose you are given the following information about a particular industry:

$$Q^D = 6500 - 100P \text{ (Demand function)}$$

$$Q^S = 1200P \text{ (Supply Function)}$$

$$C = 722 + \frac{Q^2}{200} \text{ (Total cost Function)}$$

Assume that all firms are identical and that the market is characterized by perfect competition.

- Find the equilibrium price, the equilibrium quantity,
- What is the output supplied by the firm, and the profit of each firm.
- Would you expect to see entry into or exit from the industry in the long run? Explain.

(7 Marks)

(Total Marks 12)

4. I. "Resource allocation and production are more efficient under condition of pure competition than under monopoly condition". Explain using a diagram.

(5 Marks)

II. The market demand equation for a product sold by a monopolist is

$$P = 50 - \frac{1}{60}Q$$

Total cost equation of the firm is

$$TC = 100 + 5Q + \frac{1}{480}Q^2$$

- What are the profit maximizing price and quantity?
- What is the firm's maximum profit?

(4 Marks)

III. What is meant by the term "monopoly power"?

(3 Marks)

(Total Marks 12)

5. I. Is monopolistic competition more efficient or less efficient than perfect competition?
(4 Marks)

II. Explain why firms in a certain industry may wish to collude with each other in setting prices in a cartel agreement.
(2 Marks)

III. Show how the cartel will maximize its joint profits using an appropriate diagram.
(2 Marks)

IV. "The kinked demand curve describes price rigidity". Explain.
(4 Marks)
(Total Marks 12)

6. I. "Whether people choose a risky option over a non-risky one depends on their attitudes toward risk and the expected payoffs of the various options." Explain the two types of groups reference to their attitudes towards risk.
(04marks)

II. What is meant by Capital Budgeting?
(03 marks)

III. "The effects of inflation are far-reaching and affect all aspects of budgeting with varying degrees of severity". Briefly explain the effect of inflation on capital budgeting.
(05 marks)
(Total Marks 12)

7. Provide brief notes any three (03) of the followings.

I. Determinants of elasticity of demand

II. The price discrimination

III. Market failure

IV. Long-term supply curve of the industry under the perfect competitive market.

(12 Marks)

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