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University of Ruhuna

Academic Year 2018/2019
B.A. (Special/General) Degree - 2000 Level
1st Semester Examination - October/November 2019

ECN 21513/ECN 21613-Intermediate Micro Economics

Answer four (04) questions only

Time Allowed: 3 hours

01.

i. What are the key differences between the Cardinal and Ordinal utility approach in explaining the consumer behavior? (3 marks)

ii. State three (03) assumptions coming under the Cardinal Utility approach. (3 marks)

iii. How do you explain the Principle of Equi-Marginal Utility according to the Cardinal Utility Approach? (4 marks)

iv. "Even though water is an essential commodity for human being, it has a lower price compared to Diamonds which are not essential goods". What is the reason behind this price contrast between Water and Diamond? explain. (5 marks)

02.

i. Indifference curves are the core of the Ordinal Approach to utility. Explain the concept of indifference curves using suitable diagrams (3 marks)

ii. List out four (04) characteristics of indifference curves and examine any two with the support of suitable graphical illustrations. (3 marks)

iii. "The Marginal Rate of Substitution (MRS) diminishes along an indifference curve". Explain the principle of diminishing MRS while reasoning out why MRS diminishes along the indifference curve? (4 marks)

iv. "A rational consumer always tries to reach the maximum possible indifference curve". Examine the validity of the above statement using an indifference curve map. (5 marks)

03.

i. What is the different between the budget line and the budget space? (3 marks)

ii. "The price of the two goods and the slope of the budget line are interrelated" do yo agree? Explain. (3 marks)

iii. Graphically explain the necessary condition to consumer equilibrium in the indifferen curve analysis? (4 marks)

iv. "If neither the price of the good nor the income of the consumer is changed th consumer has no motive to change the equilibrium combination of the two goods analyze the above statement using a suitable example. (5 marks)

04.

i. Consider two goods, Good X and Good Y that have price levels of Px= Rs.5 and Py= Rs. 10. The income of the consumer (I) is Rs100.

   a. Write down the budget equation for the above information
   b. Find out the slope of the but get line

(6 marks)

ii. Assume the utility function of the above consumer is given by the function

$$U= X^2Y^2$$

   a. Find out the marginal utility of good X and Y (MU_X and MU_Y)
   b. Calculate the equilibrium consumption bundle of goods for this consumer

(6 marks)

iii. Illustrate consumer equilibrium found in section above using a diagram. (3 marks)

05.

i. "There are **three (03)** different stages that can be identified in the short run productio examine the validity of the above statement using a suitable graph. (3 marks)

ii. At which stage of the production you identified above, a rational producer would alway try to produce? Justify your answer with valid reasons (3 marks)

iii. "In the short run production when the variable inputs are increased the total productio (TP) tend to decline after a certain level of production" explain this behavior of th short run production with the help of the relevant economic theories. (4 marks)

iv. Explain the difference between the "change in the factor proportions" and the "chang in the scale of the production" using a graph (5 marks)

06.

i. Assume a firm and capital (K Develop the e

ii. Explain the co

iii. What conditi output?

iv. What is repre

07. Provide short

i. The Income

ii. How does th curve in the

iii. Explain hov the Compen

iv. The Cobb-D

06.

i. Assume a firm uses only two factors of production in the production process, labour (L) and capital (K). Given the price of labour is Rs. 20 and price of capital is Rs. 40. Develop the expression for the total cost function of the firm.

(3 marks)

ii. Explain the concept of Marginal Rate of Technical Substitution (MRTS)

(3 marks)

iii. What condition should the producer meet to reach the profit maximizing level of output?

(4 marks)

iv. What is represented by the expansion path of a firm?

(5 marks)

07. Provide short notes on **any three (03)** questions below

i. The Income Consumption Curve (ICC) for an inferior good.

ii. How does the Engle curve differ from the Demand curve? Show the shape of the Engle curve in the case of a luxury good using a suitable graph.

iii. Explain how to decompose the Price Effect into Income and Substitution Effects using the Compensating Variation in Income method

iv. The Cobb-Douglas production function and returns to scale

(5 × 3 marks)

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