



UNIVERSITY OF RUHUNA

FACULTY OF MANAGEMENT AND FINANCE

Bachelor of Business Administration Degree Programme 1000 Level Semester I

Examination (November/December 2021)

Academic Year 2020/2021

BBA 11033 - Microeconomics

Duration: Three hours

The Question Paper contains 05 questions.

Answer All Questions.

Use of calculators is permitted.

Question 01

Mention the letter which includes the correct answer with the question number in your answer scrip.

(I) When we look at the whole economy or its major aggregates, our analysis would be at the level of,

- (a) Microeconomics
- (b) Macroeconomics
- (c) Positive Economics
- (d) Normative economics

(II) Which of the following is a normative economic statement?

- (a) Fashion designers should be allowed to copyright designs to promote innovation.
- (b) The minimum wage law causes unemployment.
- (c) The minimum wage law benefits some groups and hurts others.
- (d) The government is considering raising the gasoline tax to promote the use of public transportation

(III) Each point on a demand curve shows

- (a) The willingness of consumers to purchase a product at different prices
- (b) The economic surplus received from purchasing a given quantity of a product
- (c) The legally determined maximum price that sellers may charge for a given quantity of a product
- (d) The consumer surplus received from purchasing a given quantity of a product

(IV) Several studies have shown promising links between green tea consumption and cancer prevention. How does this affect the market for green tea?

- (a) The green tea supply curve shifts to the right because of a change in tastes in favor of green tea.
- (b) The green tea demand curve shifts to the right because of a change in tastes in favor of green tea.
- (c) The green tea demand curve shifts to the left because this new information will increase the price of green tea.
- (d) The green tea supply curve shifts to the left because this new information will increase the price of green tea.

(V) The demand for AVI shoes is more price elastic than the demand for shoes as a whole. This is best explained by the fact that.

- (a) AVI shoes are luxury good, not a necessity.
- (b) AVI shoes are the best made and widely advertised.
- (c) There are more compliments for AVI shoes than for shoes as a whole.
- (d) There are more substitutes for AVI shoes than for shoes as a whole.

(VI) Which would best describe the short run for a firm as defined by the economists?

- (a) The plant capacity for a firm is variable,
- (b) Plant capacity for a firm is fixed
- (c) There are diseconomies of scale
- (d) They are economics of scale.

(VII) The reason for substitution effect work to encourage a consumer to buy more of a product price decrease is

- (a) The real income of the consumer has been increased
- (b) The real income of the consumer has been decreased
- (c) The product is now relatively less expensive than it was
- (d) Other products are now relatively less expensive than they were

(VIII) The change in total product divided by the change in resource input defines,

- (a) Total cost
- (b) Average cost
- (c) Average product
- (d) Marginal product

(IX) Which is true with respect to the demand data confronting a monopolistic firm,

- (a) Marginal revenue is greater than the average revenue
- (b) Marginal revenue decreases as average revenue decreases.
- (c) Demand is perfectly price elastic.
- (d) Average revenue increases as the output of the firm decreases

(X) The demand for a resource is derived from the,

- (a) Demand for the products it helps produce
- (b) Price of the resource
- (c) Supply of the resource
- (d) Income of the firm selling the resource.

[1 Mark x10=10 Marks]

Question 02

(I) Explain four (04) main properties of indifference curve with support of diagrams.

(04 Marks)

(II) Ramani monthly allocated Rs. 12000/- for her monthly consumption. Suppose she spends her entire budget on apparel and book which are respectively Rs.1500/- and Rs.600/- for each.

Draw a budget line on above mentioned information by referring the horizontal axis for apparel and vertical axis for books.

(02 Marks)

(III) Explain what happens to Ramani's budget constraint in following situation,

- a) If Ramani monthly budget allocation reduced into Rs.9000/-
- b) If the price of apparel rises up to Rs. 2000/-

(04 Marks)

(IV) Briefly explain five (05) reasons that is important to study about resource prices.

(05 Marks)

[Total 15 Marks]

Question 03

(I) Explain why does the monopolist not charge the highest possible price for its products.

(07 Marks)

(II) In the long run, the monopolistic competitive firm will earn only a normal profit. Discuss this statement using appropriate diagrams.

(08 Marks)

[Total 15 Marks]

Question 04

(I) Define the concentration ratio and explain the problem associated with the concentration ratio by using an example.

(06 Marks)

(II) Briefly explain the main characteristics of Isoquants.

(03 Marks)

(III) "The theoretical concept of perfect competition is completely opposed to the generally accepted concept of competition". Discuss.

(06 Marks)

[Total 15 Marks]

Question 05

I) Briefly explain the marginal rate of technical substitution.

(04 Marks)

II) Following is the production function faced by MRF company.

$$Q = 2L^2 + 20LK + 2K^2$$

Where; Q = Quantity of Output, L = Quantity of Labor, K = Quantity of Capital

a) Derive the Marginal Product (MP) functions.

(02 Marks)

b) Assume that the price of labor equals Rs. 1000/- and the price of capital equals Rs. 2000/- Determine the least cost combination of labor and capital that the MRF company must employ, if the company wishes to produce 50000 units.

(06 Marks)

c) Determine the total production cost under the above combination.

(03 Marks)

[Total 15 Marks]
