

University of Ruhuna
Bachelor of Science in ARMT / ABM
First Year First Semester - 2019
End Semester Examination
EC 1101 – Micro Economics

PART B: Answer any four (04) questions

Time: Two hours

1. (a) What are the characteristics of indifference curves? *(05 Marks)*

(b) A person is planning to buy two commodities X_1 and X_2 to maximize the utility (U) which is given by the equation $U = X_1X_2$. He has only Rs. 1000/= to spend. Price of one unit of X_1 is Rs. 10/= and X_2 is Rs. 5/=. Find the number of unit X_1 and X_2 to be purchased in order to maximize the utility subjected to budget constraint. *(20 Marks)*

2. (a) Briefly explain the factors affecting the supply of a commodity in the market. *(07 Marks)*

(b) Briefly explain the process of determining the equilibrium price of a commodity in the market. *(08 Marks)*

(c) Using appropriate diagrams explain the possible impacts of imposing a maximum price for a commodity by the government. *(10 Marks)*

3. (a) Define the terms (i) Fixed Cost, (ii) Variable Cost and (iii) Marginal Cost. *(07 Marks)*

(b) Prove that 'Marginal Cost' (MC) equal to 'Marginal Revenue' (MR) at the level of profit maximizing of a production unit. *(08 Marks)*

(c) Prove that the 'Marginal Cost' (MC) curve cuts the 'Average Cost' (AC) curve at the lowest point of the AC curve. *(10 Marks)*

4. Using an appropriate model explain the impact of demand for the durables on demand for food and other consumption commodities. *(25Marks)*

5. (a) Briefly discuss the reasons for developing a monopoly for a product in the market. *(05 Marks)*

(b) Briefly explain the price determination process of the monopoly. *(10 Marks)*

(d) Using appropriate diagram, show the profit maximization output level of the 'Zero cost Monopoly'. *(10 marks)*

6. Compare the impact of perfect competition and monopoly on (i) price determination (ii) market price, (iii) resource conservation, (iv) research and development and (v) employment generation in an economy.

(25 Marks)
