UNIVERSITY OF RUHUNA

FACULTY OF MANAGEMENT AND FINANCE

No. of Pages: 04
No. of Questions: 07
Total Marks: 70

BACHELOR OF BUSINESS ADMINISTRATION HONOURS DEGREE

1000 LEVEL FIRST SEMESTER END EXAMINATION– AUG/SEP 2025
(New Syllabus)

Three Hours

BBA 11033 – Microeconomics Academic Year: 2024/2025

Instructions

- The question paper contains (07) questions.
- Nonprogrammable calculators are permitted.
- Questions **1 and 2 are COMPULSORY**. Choose **ANY FOUR from Questions 3 - 7**

Question 01

Briefly answer the following questions in one to five sentences. Provide clear, concise explanations that demonstrate your understanding of these fundamental economic concepts.

i. What is economics?
ii. What is scarcity?
iii. What is microeconomics?
iv. What is utility?
v. What is an inferior good?
vi. What is economic profit?
vii. What are explicit costs?
viii. What is marginal cost?
ix. What are fixed costs?
x. What is the long run in cost and production functions?

[01 Mark each: Total 10 Marks]

Question 02

Explain the following statements with clear explanations and relevant economic analysis.

i. It is said that a purely competitive economy is the most efficient economy. (5 marks)
ii. Monopoly firms often employ various barriers to restrict the entry of new competitors into the industry. (5 marks)
iii. The kinked demand curve illustrates why price rigidity occurs in oligopolistic markets. (5 marks)
iv. The firm in the Monopolistic competitive market can only earn normal profit in the long run. (5 marks)

[Total 20 Marks]

Question 03

'Ben & Jerry' is an international company that manufactures ice cream and supplies it to a diverse market. $QD = 300 - 5P$ represents the demand function for the ice cream, while $QS = 50 + 7.5P$ represents the supply function.

i. Determine the equilibrium price and quantity for Ben & Jerry's ice cream in this market. (02 Marks)

ii. Analyze the market impact of a government-imposed price floor set at Rs. 80. Discuss how this policy affects market outcomes, including any resulting inefficiencies. Support your analysis with an appropriate diagram. (05marks)

iii. Suppose the price of the product is set to Rs. 5 above the equilibrium price by suppliers. Calculate the price elasticity of demand using the Point Elasticity Method at this new price. Based on your results, identify whether the demand is elastic, inelastic, or unit elastic. Explain what this tells us about how sensitive consumers are to price changes. (03marks)

[Total 10 Marks]

Question 04

You are choosing between two products, A and B, and your marginal utility from each is shown in the table below:

Where:

- MUa = Marginal Utility of good A
- MUb = Marginal Utility of good B

Units of A	MU_a	Units of B	MU_b
1	12	1	9
2	10	2	8
3	8	3	7
4	6	4	6
5	4	5	5
6	2	6	4

i. If your income is Rs.12 and the prices of A and B are Rs.3 and Rs.1, respectively, what quantities of each will you purchase to maximize utility? What total utility will you realize? (5 marks)

ii. Assume that, other things remaining unchanged, the price of A falls to Rs.2. What quantities of A and B will you now purchase? (3 marks)

iii. Using the two prices and quantities for A, derive a demand schedule (price–quantity-demanded table) for A. (2 marks)

[Total 10 Marks]

Question 05

i. Briefly explain the factors that determine the demand for resources. (5 marks)

ii. "Indifference curves are always convex to the origin." Do you agree with this statement? Justify your answer with appropriate explanations and suitable diagrams. (5 marks)

[Total 10 Marks]

Question 06

i. Sunshine Company has estimated its production function as follows:

$$Q = 60\,LK - 12L^2 - 6K^2$$

Where: Q = Quantity of output produced; L = Units of labor employed and K = Units of capital employed

Sunshine Company wishes to maximize output subject to following cost and budget constraints.

- Labor cost: Rs. 2,000 per unit
- Capital cost: Rs. 3,000 per unit
- Total budget: Rs. 410,000

a) Determine the optimal amounts of labor (L) and capital (K) that Sunshine Company should employ. (03 Marks)

b) Based on your answer to part (a), calculate the maximum total output the company can achieve. (01marks)

ii. Complete the missing entries in the cost analysis table below. The missing entries are labeled (a) through (h). In your answer script, write the letter followed by the correct numerical value for each missing entry.

Where:

- ATC = Average Total Cost
- AFC = Average Fixed Cost
- AVC = Average Variable Cost
- MC = Marginal Cost

Output	AFC	AVC	ATC	MC
1	(a)	(b)	400	100
2	(c)	75	(d)	50
3	100	(e)	170	(f)
4	75	(f)	148	(g)

(0.75 Mark Each: 06 Marks)

[Total 10 Marks]

Question 07

ZeTech Industries operates in the global competitive market for specialized software licenses. The company faces the following market conditions:

Demand Function: $\boldsymbol{P = 200 - 2Q}$

Total Cost Function: $\boldsymbol{TC = 100 + 20Q + 0.5\,Q^2}$

Where:

- **P** = Price per license (in dollars)
- **Q** = Quantity of licenses sold
- **TC** = Total Cost (in thousands of dollars)

i. Derive the Total Revenue function and express it in terms of Q. (02 Marks)

ii. Calculate the Marginal Revenue (MR) and Marginal Cost (MC) functions. (02 Marks)

iii. Given the firm's current production level of Q = 35 units, should the firm increase or decrease its production to maximize profit? Compare all four scenarios (Q = 34, Q = 35, Q = 36, Q = 37) to justify your answer. (04 Marks)

iv. The government is considering implementing a per-unit tax of 1 dollar on each license produced.
Explain how this per-unit tax would affect the firm's total cost and marginal cost functions. (02 Marks)

(Total 10 Marks)

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