



**University of Sri Jayewardenepura**  
**Faculty of Humanities and Social Sciences**  
Bachelor of Arts First Year First Semester Examination – July/August, 2017  
Economics

15

**ECON 1110 .03/1101/1110 -Principles of Microeconomics**

Time: Three (03) hours

Answer any five (05) questions.

1. What is the difference between following concepts?

- i. Wants and demand.
- ii. Production efficiency and allocative efficiency.
- iii. Positive and normative statements.
- iv.- Scarcity and opportunity cost.

(04 marks each)

2. i). Name the economic systems and explain their main characteristics.

(08 marks)

ii). Explain in which way a free market economy solves the basic economic problems.

(08 marks)

3. Consider a simple economy producing two goods, cars and milk. The following table gives several production combinations of this economy's production possibility frontier.

Cars (1000's/year)	Milk (1000's of liters/year)
0	60
1	50
2	30
3	0

i). Draw this economy's production possibility frontier. (02 marks)

ii). Why is the production possibility frontier downward sloping? (02 marks)

iii). Suppose the economy is currently producing 2000 cars and 30,000 liters of milk. What is the opportunity cost of producing additional 20,000 liters of milk?

(02 marks)

iv). Suppose this economy plans to produce 2000 cars and 50000 liters of milk. Explain using the graph the type of changes that should be in this economy to achieve that production.

(05 marks)

v). Distinguish between increasing opportunity cost and decreasing opportunity cost.

(05 marks)

4. i). Explain the law of demand.

(02 marks)

ii). Over the last two decades, tuition fees of a university have been increased by 50%. At the same time, the number of student enrolment has been increased from 22,000 to 35,000. Does this example show that the Law of Demand is false? Explain.

(04 marks)

iii). Explain the importance of price elasticity of demand for the economic decision making.

(04 marks)

iv). Many seats in a cinema remain empty. The manager considers the following alternatives:

- Decrease the prices by 12 % - Increase entries by 18 %
- Increase the prices by 10 % - Decrease entries by 12 %

Which alternative will be chosen if the manager intends to maximize turnover?

(06 marks)

5. i). Explain the law of supply and why does the supply curve slope upward?

(04 marks)

ii). What are the determinants of supply?

(03 marks)

iii). What happens to the supply curve when each of these determinants change?

(03 marks)

iv). Distinguish between point elasticity and arch elasticity of supply.

(04 marks)

v). What are the factors which determine the elasticity of supply.

(02 marks)

6. How will the following events affect equilibrium price and quantity in a competitive market?

Explain your answer using separate graphs.

i). A drop-in consumer income.

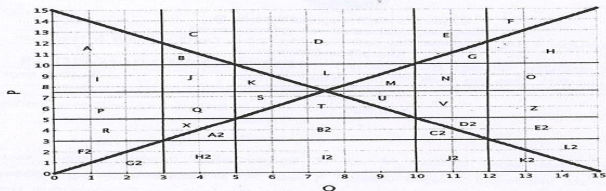
ii). Decline of numbers of law school graduates affecting the legal services.

iii). An increase of elderly people in the population causing impact on the medical services.

iv). An introduction of cost-saving technological innovations.

(04 marks each)

7. Use the graph given to answer the following questions.



i). Consider a free market without taxes and international trade. Indicate the corresponding areas.

- a. Consumer Surplus
- b. Producer Surplus

(04 marks)

ii). Suppose now that the government imposes a sales tax on producers of Rs.5 per unit sold.

Indicate the corresponding areas.

- a. Consumer Surplus
- b. Producer Surplus
- c. Tax Revenue
- d. Deadweight Loss

(08 marks)

iii). Suppose now that the government introduces a price ceiling of Rs.3. Indicate the following areas.

- a. Consumer Surplus
- b. Producer Surplus
- c. Deadweight Loss

(04 marks)

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