38

University of Sri Jayewardenepura
Faculty of Humanities and Social Sciences
Bachelor of Arts First Year First Semester Examination
August/September- 2019
Economics
ECON 1110.03 – Principles of Microeconomics
ECON 1110.03 – Elements of Microeconomics

Time allowed: Three hours (03)
Answer any 05 questions.
Equal marks will be given for each question.

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01. i. What are economic resources? How do you categorize those resources? (02 marks)

ii. Explain the concept of 'Ceteris Paribus' and mention its importance in economic analysis. (02 marks)

iii. How different types of economic systems answer to the question of what good and services should produced. (04 marks)

iv. Would the market economy always be able to allocate resources efficiently? Explain. (04 marks)

v. State the differences between command economy and market economy. (04 marks)

02. i. Define the following concepts.
   a. Opportunity cost
   b. Production possibility frontier
(02 marks each)

ii. Why the production possibility frontier is concave to the origin? Explain. (02 marks)

Answer following questions, referring to the table

Wheat (Kilogram)	Cloth (Meter)
50	0
40	5
30	10
20	15
10	20
0	25

iii. Plot the production possibility curve for wheat and cloth.

iv. What happens to the opportunity cost of producing wheat as the production of wheat increases?

v. What is the per unit opportunity cost of increasing the production of cloth from 10 units to 15 units and wheat from 10 units to 30 units.

vi. Explain whether there is possibility of producing 30 kg of wheat and 15 meters of cloth according to the production possibility curve that has been drawn above.

vii. Illustrate whether there is possibility of producing 20 kg of wheat and 10 meter of cloth efficiently according to the production possibility curve that you have drawn above.

(02 marks each)

03\. i. Good A and good B are either being substitutes or complements. Suppose the price of good B has risen. Explain using suitable graphs how the rise in price impacts on the market under the following situations;

a. When A and B are substitute goods;

b. When A and B are complementary goods.

(02 marks each)

ii. If the price of a good falls from Rs.6 to Rs.4 and the quantity demanded rises from 8000 units to 12000 units.

a. Calculate the price elasticity of demand by using mid point method.

b. What happens to revenue due to the price decrease?

(02 marks each)

iii. In a cinema many seats remain empty. The manager intends to increase income and examines the following alternatives:

a. When the price decreases in 12 % entries increase in 15 %

b. When the price increases in 10 % entries decrease 12 %

Which alternative is chosen if the manager intends to maximize the income?

(04 marks)

iv. Name the type of goods according to the following income elasticities of demand?

a. Good X: + 0.5

b. Good Y: - 0.4

(02 marks)

v. The income elasticities of demand of the two goods, A and B, are as follows:

Good A: + 3.0

Good B: - 0.2

If income rises in 5 % to what degrees the demand of goods A and B change?

(02 marks)

04. i. Explain the law of supply and mention why the supply curve slopes upward?

(04 Marks)

ii. What are the determinants of supply?

(03 marks)

iii. What are the effects on the supply curve when the above 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)

05. In a certain market the demand can be shown by a linear demand function of $Qd = 52 - 4p$ and the supply can be shown by a linear supply function of $Qs = -18 + 6p$.

i. Calculate the quantities demanded and supplied at prices Rs.1 and Rs.15.

(04 marks)

ii. If the government puts in place a price floor of Rs. 8, what will be the excess demand in the market as a result of this?

(04 marks)

iii. Calculate the consumer surplus:

a. Before the price floor was imposed.

b. After the price floor was imposed. (04 marks)

iv. Calculate the producer surplus:

a. Before the price floor was imposed.

b. After the price floor was imposed. (04 marks)

06. Demand and supply functions of a good are given in following equations

$$Qd = 500 - 20P$$
$$Qs = -200 + 15P$$

i. Calculate the equilibrium price and quantity. (04 marks)

ii. Calculate the price elasticity of demand and supply at equilibrium price. (02 marks)

iii. If the government imposes a unit tax of 10 rupees on this good, calculate the new equilibrium price and quantity. (03 marks)

iv. How the tax burden is distributed among the consumer and producer? (02 marks)

v. What is the change that takes place in economic surplus due to the unit tax? (04 marks)

vi. How much is the welfare effect? (01 marks)

07. Explain the difference between the following concepts

i. Wants and demand.

ii. Production efficiency and allocative efficiency.

iii. Positive and normative statements.

iv. Substitution effect and income effect. (04 marks each)

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