



University of Sri Jayewardenepura
Faculty Humanities and Social Sciences

Bachelor of Arts Second Year First Semester Examination – July/August 2017
Economics

ECON 2110.03/ECON 2110 Intermediate Microeconomics

Time: Three (03) hours.

Answer any five (05) questions only.

1. i. What is the law of diminishing marginal utility?

(02 marks)

- ii. The following table shows a consumer's marginal utilities for two commodities X and Y. A unit of both X and Y costs Rs. 2 each and the total income is Rs. 20.

Q	1	2	3	4	5	6	7	8
MU _x	16	14	11	10	9	8	7	6
MU _y	15	13	12	8	6	5	4	3

Show the consumer's equilibrium.

(03 marks)

- iii. Explain the consumer's equilibrium with the help of indifference curve approach.

(05 marks)

- iv. Illustrate 'the income- leisure trade – off' using indifference curves.

(06 marks)

2. i. What is 'the law of diminishing returns'?

(02 marks)

- ii. Distinguish between marginal rate of technical substitution and returns to scale.

(05 marks)

- iii. Consider the following production function.

$$Q = AK^{0.5}L^{0.5}$$

- (a). Derive the equations for the marginal product function for each input.

(02 marks)

- (b). What type of returns to scale does the production function exhibit?

(02 marks)

- iv. 'The least –cost factor combination depends on technical substitutability of factor and factor prices' Explain.

(05 marks)

3. i. State the necessary and sufficient conditions of firms equilibrium and explain how a perfect competitive firm fulfills those conditions. (06 marks)
- ii. Compare and analyze the long run equilibrium of perfect competition with that of monopoly. (10 marks)
4. i. How does a discriminating monopolist allocate his output and charge different prices in different markets? (08 marks)
- ii. Analyze the short run and long run equilibrium of a firm working under monopolistic competition? (08 marks)
5. Compare and analyze the short run and long run equilibrium of perfect competition with that of monopolistic competition. (16 marks)
6. i. What are the important features of the oligopoly? (04 marks)
- ii. Explain the determination of price and output under the price leadership of the low cost firm. (12 marks)
7. Write shot notes on
- i. Reveled preference theory. (08 marks)
- ii. Short run supply curve of the perfectly competitive firm. (04 marks)
- iii. Traditional and empirical long run average cost curves. (04 marks)
