



University of Sri Jayewardenepura

Faculty of Humanities and Social Sciences

Bachelor of Arts Second Year First Semester Examination – August/ September 2019

Economics

**ECON 2110.3 Intermediate Microeconomics**

Time: Three (03) hours.


Answer any five (05) questions only.

1. (i) Distinguish between cardinal utility and ordinal utility. (06 marks)
- (ii) What do you mean by Equi –marginal condition in relation to consumer behaviour? (04 marks)
- (iii) Explain consumer's equilibrium condition with the help of indifference curve approach. (06 marks)
  
2. (i) What is Giffen good? How is it different from normal goods? (04 marks)
- (ii) With the aid of a diagram analyze the difference between income effect and substitution effect of a price reduction for an inferior good. (06 marks)
- (iii) Explain using an example an application of indifference curve. (06 marks)
  
3. (i) What is the difference between short run and long run production function? (04 marks)
- (ii) Explain the law of returns to scale. (06 marks)
- (iii) A firm's total cost function is given by the equation,  
$$TC = 2000 + 5Q + 10Q^2$$

write an expression for each of the following cost concepts.

  - (a) Total fixed cost.
  - (b) Average fixed cost
  - (c) Total variable cost
  - (d) Average variable cost
  - (e) Average total cost
  - (f) Marginal cost

(03 marks)
- (iv) Why is the short-run average cost curve take the shape of English letter 'U'? (03 marks)

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4. (i) Explain the necessary and sufficient conditions for profit maximization. (04 marks)
- (ii) Why is the perfect competitive firm a price maker? (04 marks)
- (iii) Explain how the equilibrium price and output is determined under perfect competition in Short run and long run. (08 marks)
5. (i) Explain the main features of monopolistic competition. (02 marks)
- (ii) Compare equilibrium price and output under monopolistic completion with that under perfect competition. (10 marks)
- (iii) Are there any benefits of excess capacity associated with monopolistic competition? Give reasons for your answer. (04 marks)
6. (i) Show that monopolist is maximizing profits when price is greater than marginal cost. (08 marks)
- (ii) Explain the determination of price and output under the price leadership by the low cost Firm. (08 marks)
7. Write short notes on
- (i) Reveled preference theory
- (ii) Cobb-Douglas production function
- (iii) Compensate variation in income and equivalent variation in income.
- (iv) Envelop curve (04 marks for each)
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