



University of Sri Jayewardenepura  
Faculty of Humanities and Social Sciences

Bachelor of Arts Third Year First Semester Examination –August/September 2018

Economics

**ECON 3110.03 – Advanced Microeconomics**

Three (03) Hours only.

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Answer Five (05) questions only.

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01. Using suitable diagrams describe the three different types of preferences for risk.

(16 Marks)

02. (i) “A Monopoly is a market that has only one seller but many buyers.”  
How would you explain this situation?

(04 Marks)

(ii) Explain how the monopoly power can affect the social welfare.

(12 Marks)

03. (a) What is meant by monopsony?

(04 Marks)

(b) What are the sources of monopsony power?

(04 Marks)

(c) The only employer in a certain town is the local textile factory. The factory faces the supply schedule for labour shown in the following table.

Wage Rate Per Hour	Units of Labour Supplied Per Hour	Total Expenditure	Margined Expenditure	Average Expenditure
4	10	40	n.a	....
5	11	....	....	....
6	12	....	....	....
7	13	....	....	....
8	14	....	....	....

(i) Fill in the blanks in the table.

(03 Marks)

(ii) The factory's demand curve for labour is a horizontal line at a wage rate of \$ 17 per hour. How much labour will the factory demand? What will be the equilibrium wage rate?

**(05 Marks)**

04. (i) What do you mean by price discrimination?

**(04 Marks)**

(ii) Explain different types of price discriminations with examples.

**(12 Marks)**

05. 'Advertising is a necessary, evil in a capitalist economy'. Do you agree with this statement? Give reasons for your answer.

**(16 Marks)**

06. Distinguish between the concepts in the following pairs of terms.

(i) Demand curve for labour and supply Curve for labour.

(ii) Marginal physical product of labour ( $MPP_L$ ) and value of marginal product of labour ( $VMP_L$ )

**(08 Marks for each)**

07. Critically examine the differences between classical theory and modern theory of wage determination.

**(16 Marks)**

08. (i) What is meant by asymmetric information?

**(06 Marks)**

(iii) Explain the likely effects of asymmetric information using a selected example.

**(10 Marks)**

09. Write short notes on the following:

(i) Producer surplus

(ii) Neuman – Morgenstern Utility Index

(iv) Risk premium

(v) Monopsonistic exploitation of labour

**(04 Marks for each)**

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