

Instructions to candidates

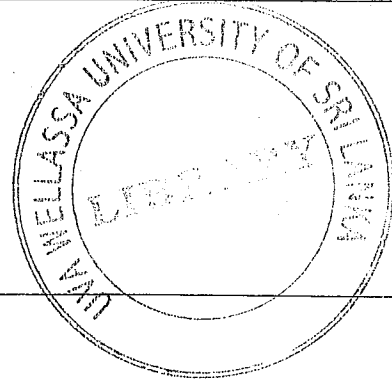
Duration: Two (02) hours

Number of questions: Four (04) essay questions

Mark allocation: 100

Answer all the questions.

Calculators are allowed.



1.
 - a. 'Economics is the study of the allocation of scarce resources to meet unlimited human wants.' Discuss the validity of this statement. (10 mark)
 - b. Briefly explain the different forms of organizations. (6 mark)
 - c. Differentiate between Profit maximization and Wealth maximization. (9 mark)

2.
 - a. Briefly explain different types of demand. (3 mark)
 - b. Briefly explain the determinants of demand. (5 mark)
 - c. Demand function and Supply function of the 'milk' market in Sri Lanka are given below.
$$Q_d = 40 - 4P$$
$$Q_s = -20 + 6P$$
 - i. Find the market equilibrium (price and quantity) (3 mark)
 - ii. Find the function of the Total Revenue (TR). (2 mark)
 - iii. Find the function of Marginal Revenue (MR). (3 mark)
 - iv. Calculate the level of output that generates maximum TR. (3 mark)
 - d. Briefly explain the factors affecting elasticity of supply. (6 mark)

3.

a. The total cost C (in rupees) of manufacturing x units of a product is given below:

$$C(x) = 600 + 7x^2 + 0.5x^3$$

- i. Determine the Average Cost (AC) function (3 mark)
- ii. Determine the Marginal Cost (MC) function (4 mark)

b. Revenue (R) and Cost function (C) of a firm are given below;

$$R(x) = 600x - 5x^2$$

$$C(x) = 2x^2 + 40x + 8000$$

(Where 'x' is the quantity of the product)

Determine the break-even level (the quantity at the point Profit = 0) for the firm. (5.5 mark)

c. Consider a Cobb-Douglas production function ($Q = AK^\alpha L^\beta$) with parameters $A=100$, $\alpha = 0.5$, $\beta = 0.5$. The particular firm is expected to be operated in the long-run. (assume that efficiency condition is satisfied.)

- i. Briefly explain 'expansion path'. (2 mark)
- ii. Find the expansion path If wage rate(w) is Rs. 4.00 and interest rate(r) is Rs. 2.00 (3 mark)
- iii. Find the Labor(L) and Capital(K) requirement to produce 2000 units. (4 mark)
- iv. Calculate the Total Cost(TC) (4 mark)

4. Write short notes on the followings,

- a. Cost Determinants (3.5 mark)
- b. Price discrimination (3.5 mark)
- c. Accounting profit and economic profit (3.5 mark)
- d. Purpose of accounting (3.5 mark)
- e. Non-current assets and current-assets (3.5 mark)
- f. Users of financial statements (3.5 mark)
- g. Gross profit and Net Profit (3.5 mark)

