



**Bachelor of Animal Science (B.ASc)
Faculty of Animal Science & Export Agriculture
Uva Wellassa University**

**Year II Semester I
End Semester Examination - January 2009**

Economic Thinking in Agriculture (EAG 221-0)



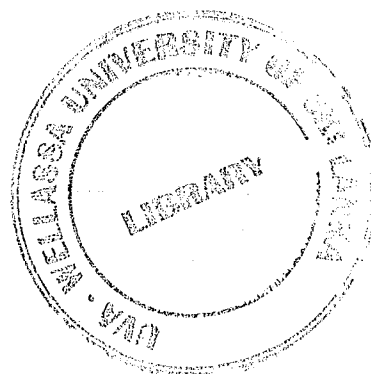
Instructions

Answer **five (5)** questions selecting **three (3)** questions from part one (I) and two (2) questions from part two (II)

No. of questions : Seven (07)
No. of pages : Four (04)
Time : Three hours (3 hours)
Total marks allocated : 40/100

Part A

- I.
 - a. What are the reasons to exist a monopoly?
 - b. Explain short run equilibrium of a firm under monopoly using diagrams.
 - c. Suppose you are the owner of a metals – producing firm that is an unregulated monopoly. After considerable experimentation and research you find that your marginal cost curve can be approximated by a straight line $MC = 60 + 2Q$, where MC is marginal cost (in dollars) and Q is your output. Moreover, suppose that the demand curve for your product is $P = 100 - Q$ where P is the product price (in dollars) and Q is your output. If you want to maximize profit, what output should you choose?
 - d. “Perfect competitive market is more efficient”. Discuss this statement.
2. Write short notes on the following;
 - a. Market failure.
 - b. Public goods.
 - c. Externalities.
 - d. Coase Theorem.
 - e. Tragedy of commons.



3.

- a. Define "the price elasticity of demand."
- b. Briefly explain the factors affecting price elasticity of demand.
- c. Consider following functions;

$$Q = 10 - 2P,$$

$$Q = 10 + 3P,$$

$Q = \text{quantity},$

$P = \text{price},$

And,

- i. Identify demand function and supply function giving explanation.
- ii. Find the equilibrium price and quantity giving assumptions.
- iii. Evolve a demand and supply schedule.
- iv. Explain the change in market equilibrium with the increase in consumer's income.

4.

- a. Define, **fixed cost, variable cost, average total cost and marginal cost.**
- b. "Farmer's aim is to maximize profit". Discuss this statement.
- c. The following table provides data on cost of production of product X produced in Bibila farm.

Production of X (Kg)	Total Cost (Rs)
0	100
1	128
2	148
3	164
4	178
5	190
6	207
7	229
8	259
9	299
10	353

- i. Find fixed cost.
- ii. Calculate average total cost, average variable cost, average fixed cost and marginal cost.
- iii. What will be the profit maximizing output level when unit price of production is Rs. 40.00?
- iv. What will be the profit or the loss? Explain the situation.



Part B

5.

- a. Define the following terms:
 - i. GDP
 - ii. GNP
 - iii. NNP
 - iv. NI
- b. Discuss rules in computing GDP.
- c. What is meant by chain weighted measure of real GDP?
- d. Calculate the GDP from the following data.

	Total (Billions of dollars)
Consumption	6,757.30
Nondurable Goods	2,010.00
Durable Goods	820.30
Services	3,927.00
Investment	1,832.70
Nonresidential Fixed Investment	1,362.20
Residential Fixed Investment	416.00
Inventory Investments	54.50
Government Purchases	1,743.70
Federal	595.20
Defence	377.00
Nondefence	218.20
State or Local	1,148.60
Net Exports	-370.70
Exports	1,097.30
Imports	1,468.00

- e. Suppose we have an economy described by the following functions.

$$C = 50 + .8YD$$

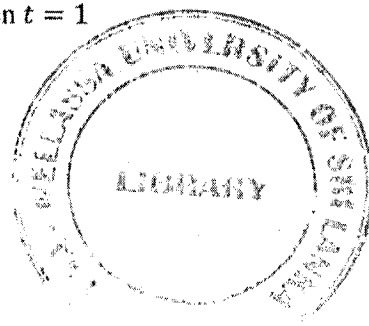
$$\bar{I} = 70$$

$$\bar{G} = 200$$

$$\bar{TR} = 100$$

$$t = .20$$

- i. Calculate the equilibrium level of income and the multiplier in this model.
- ii. Calculate the budget surplus.
- iii. Suppose that t increases to .25. What is the new equilibrium income? The new multiplier?
- iv. Calculate the change in the budget surplus. Would you expect change in the surplus to be more or less if $c = .9$ rather than .8?
- v. Can you explain why the multiplier is 1 when $t = 1$?



6. Write short notes on the followings;
- a. Nominal GDP and Real GDP.
 - b. Inflation and Unemployment.
 - c. GDP deflator and Consumer Price Index.
 - d. Actual output and Potential output.
 - e. Stocks and Flows.
7. Briefly explain the following;
- a. The Goods Market and the LS curve.
 - b. The Money Market and the LM curve.
 - c. Effects of a change in fiscal policy.
 - d. Slope of the LM curve.
 - e. Effects of the multiplier, α_G , on the steepness of the IS curve.

