

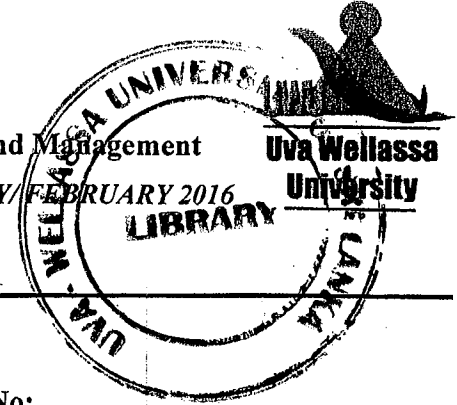
Uva Wellassa University

Faculty of Management

Bachelor of Business Management in Entrepreneurship and Management

FIRST YEAR SECOND SEMESTER EXAMINATION – JANUARY/FEBRUARY 2016

ENM 172 - 2 Business Economics



**Instructions to candidates:**

No. of pages : Six (06)  
No. of questions : Twenty (20) MCQs  
                          : Five (05) Essays  
Time : Two (02) Hours  
Marks allocated : 100 Marks  
Answer **any Four (4)** questions.

Index No:

Do not remove the question paper from the exam hall

(2).

Suppose the market demand for lunch at University Canteen is:  $Q_d = 10 - 2P$ , and the supply of lunch is:  $Q_s = -5 + 3P$ , where  $P$  is the price per lunch packet,  $Q_s$  and  $Q_d$  are the quantity supplied and quantity demanded respectively. If the University imposes a tax of Rs. 1 per lunch packet (Specific Tax)

- (a). What is the equilibrium price (before tax)? (01 mark)
- (b). What is the equilibrium quantity (before tax)? (01 mark)
- (c). What is the consumer surplus (before tax)? (01 mark)
- (d). What is the producer surplus (before tax)? (01 mark)
- (e). What is the new equilibrium price (after tax)? (01 mark)
- (f). What is the new equilibrium quantity? (after tax)? (01 mark)
- (g). What is the price (of tax) faced by suppliers? (01 mark)
- (h). What is the price (of tax) paid by consumers? (01 mark)
- (i). What is the government revenue from the tax? (01 mark)
- (j). What is the new producer surplus? (01 mark)
- (k). What is the new consumer surplus? (01 mark)
- (l). How much is consumers' tax burden? (01 mark)
- (m). How much is producers' tax burden? (01 mark)
- (n). What is the deadweight loss of the tax? (04 marks)
- (o). How can you justify a tax? (08 marks)

(Total 25 marks)

(3).

(a). Explain the relationship between Marginal Cost and Average Variable Cost.

Draw the appropriate graph.

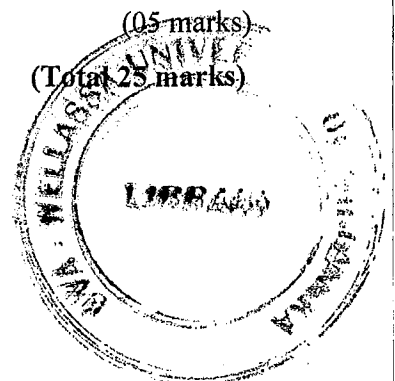
(05 marks)

(b). Refer to the chart below to answer the following questions.

Output	TFC	TVC	MC	P=MR	TR	TC	ATC
0	25	0	-	20			-
1		10		20			
2		15		20			
3		25		20			
4		45		20			

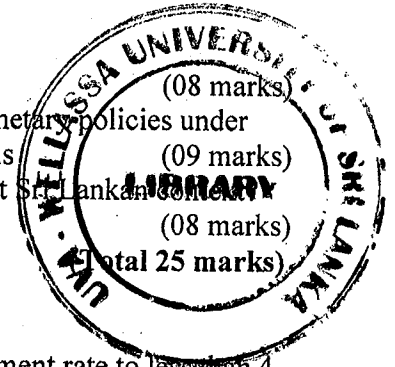
- (i) Complete the blank columns. (06 marks)
- (ii) How many unit of output firm will sell to maximize its profit? How much profit will it make? (05 marks)
- (iii) Calculate AVC and AFC when output is 4 units. (04 marks)
- (iv) Suppose the market price falls to 10 per unit of output. At this price, how many units of output will the firm sell? (05 marks)

(Total 25 marks)



(4).

- (a). Briefly explain monetary and fiscal policies (08 marks)
- (b). Graphically explain the effectiveness of fiscal and monetary policies under Classical and Keynesian aggregate supply assumptions (09 marks)
- (c). Which policy is the most effective policy in the current Sri Lankan context? Explain and justify your answer (08 marks)



(5).

- (a). "Sri Lanka have achieved goal of reducing unemployment rate to less than 4 per cent successfully in recent years" Critically examine this statement (12 marks)
  - (b). Briefly explain the impact of Budget Proposal 2016 on Sri Lankan economy (13 marks)
- (Total 25 marks)

(6).

Write short notes on **five (5)** of the following

(5 marks for each)

- (a). Production Possibility Frontier (PPF)
- (b). Banking Institutions of Sri Lanka
- (c). Monopoly market structure
- (d). Positive externalities
- (e). Risk returns evaluation statistics
- (f). Relationship between inflation and unemployment

(Total 25 marks)

