



Uva Wellassa University

Faculty of Management

SECOND YEAR FIRST SEMESTER EXAMINATION – AUGUST/SEPTEMBER 2014

BGE 221-3 Economics and Project Management

Instructions

- No. of pages : Five (05)
- No. of questions : Eight (08)
- Time allocation : Three (03) hours
- Total Marks allocated : Hundred (100) Marks

Answer five (05) questions selecting at least two (02) questions from each section.

PART – A

- 1) i) "An economy deals with three issues to satisfy needs and wants of people." Briefly explain this statement. (06 Marks)
- ii) Describe the following concepts in brief.
 - a) An economy (01 Marks)
 - b) Scarcity (01 Marks)
 - c) Supply and demand (02 Marks)
 - d) Needs and wants (02 Marks)
- iii) Differentiate planned economy from market economy. (08 Marks)
(Total Marks 20)
- 2) i) Explain the difference between demand and derived demand using an example. (03 Marks)
- ii) You are given following details pertaining to a product in a market.

Price Rs.	Demand (Q)	Supply (Q)
5	10	65
4	20	55
3	30	45
2	40	35
1	50	30

- a) Draw the demand curve and supply curve. (03 Marks)
- b) Show the equilibrium price and the quantity on the economic model. (02 Marks)
- iii) Due to a change in consumer income above quantities of demand have been changed as follows.

Price Rs.	5	4	3	2	1
Demand (Q2)	25	35	45	55	65

Draw new demand curve and find new equilibrium price and quantity. (03 Marks)

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- iv) Explain other two (02) factors that can shift the demand curve to the right. (03 Marks)
- v) "In short run supply, the ruling market price becomes in fact the firm's average revenue (AR) curve and also its marginal revenue (MR) curve. According to the above model, assume the ruling market price is Rs. 2.25 and justify the given statement. (06 Marks)

03. Assume that you have been recruited as a project executive to an overseas company which is planning to invest in Sri Lanka. The company expects you to guide them in decision making pertaining to economic feasibility of their project.

Discuss the macroeconomic condition of Sri Lanka based on various sub sections on which you may guide the company. (20 Marks)

04.

- i) Distinguish between macro economics and micro economics. (4 Marks)
- ii) What is meant by natural rate of unemployment? (2 Marks)
- iii) If money supply increases by 20 %, and if velocity remains as 3 % and if real output (GDP) grows at 9% by what percent would the price levels rise or fall of this economy? (2 Marks)
- iv) Discuss expansionary and contractionary monetary policies (4 Marks)
- v) Explain the role of the Central Bank in Sri Lankan economy (4 Marks)
- vi) What are the variables that change the exchange rate of an economy? (4 Marks)

PART - B

05.

- i. Differentiate Projects from Operations. (2 Marks)
- ii. Briefly explain the reasons for projects to fail. (2 Marks)
- iii. What are the core project management tools? (4 Marks)
- iv. Briefly discuss the factors to be considered when selecting an appropriate project management structure. (6 Marks)
- v. Compare and contrast the advantages and disadvantages of dedicated vs matrix project management structures. (6 Marks)

06.

- i. What is project appraisal and why it is important? (2 Marks)
- ii. ABC group has identified an initial outlay of Rs 800,000 for a project of one year duration and the expected return from the project is Rs 1,500,000.
 - a) Calculate the Return on Investment (ROI) for the above project. (2 Marks)
 - b) Advice ABC group with merits and demerits of using ROI. (4 Marks)
- iii. Calculate the payback period for each of the following projects and give your recommendation based on the payback period method. (6 Marks)

Period	Project A		Project B		Project C	
	Cost Rs	Benefit Rs	Cost Rs	Benefit Rs	Cost Rs	Benefit Rs
1	700	0	9000	0	14000	14000
2	700	0	9500	7000	11000	14500
3	700	700	6000	12000	7500	11500
4	700	700	1500	11000	8500	13000
5	700	1800	1000	5000	4000	12000
6	700	2600	500	5000	2000	12000



- iv. XYZ Company's cost of capital is 10% and considers the following project options for the next financial year.

Year	Project A Estimated cash flow (Rs)	Project B Estimated cash flow (Rs)	Project C Estimated cash flow (Rs)
0	-2000	-8,000	-50,000
1	-500	-8,000	15,000
2	1500	-8,000	15,000
3	2500	-8,000	15,000
4	2000	32,000	15,000

Calculate the Net Present Value (NPV) for each project and give your recommendations to the management of XYZ Company for project selection. (6 Marks)

07. The following information has been given pertaining to a Project.

Activity	Description	Preceding Activity	Time Duration (Days)
A	Project Appraisal	None	10
B	Approve structural designs	None	13
C	Start piling	A	29
D	Ordering supplies	A	9
E	Foundation	A	17
F	Construction	B	21
G	Interior designs	C,D,E,F	65
H	Landscaping	G	14
I	Electrical systems	G	7
J	Furnishing	H,I	8
K	Fittings	J	8
L	SOEs	J	4
M	Building service testing	J	5
N	Traffic testing	K,L	3
O	Testing operations	M	9
P	Occupation	N,O	12

- Develop the network diagram for the above project activities using the Activity on Node technique and calculate the minimum overall project completion time. (5 Marks)
- Calculate slack time for each activity and identify the critical path. (6 Marks)
- What is meant by critical path and why it is important to a project manager. (4 Marks)
- Differentiate project direct costs from indirect costs with appropriate examples. (5 Marks)

