

2. Predict what will happen to either supply or demand and the price in each of the following cases. Explain your answers briefly using graphs where necessary.  
(2 marks for each)

- (i) Several new companies enter the production of vehicles industry
- (ii) Consumers decide taking alcohol is bad for their health
- (iii) A new kind of pest threatens to destroy the rice production in Sri Lanka
- (iv) The price of Tea falls, the effect to the demand for Coffee
- (v) The price of Tea falls, the effect to the demand for Milk
- (vi) A new type of paddy harvesting machine is introduced in Sri Lanka
- (vii) Tobacco opponents in Sri Lanka convince the government to print a picture of possible bad effects of smoking on cigarette packet.
- (viii) A new expressway is developed between Colombo and Badulla
- (ix) A new Private Medical College is introduced in Sri Lanka
- (x) Scientists predict that all crude oil deposits will be finished by the year 2020.

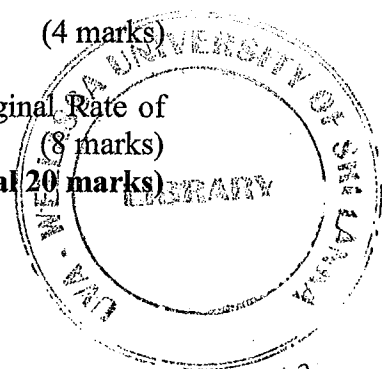
(Total marks 20)

- 3.
- (a). "Scarcity (limited resources compared to unlimited wants and needs) leads to the study of Economics". Discuss how scarcity leads to study of Economics  
(6 marks)
  - (b). "Using mathematical models in the study of economics is very popular" Discuss with your examples  
(6 marks)
  - (c). "Learning Economics is important for business personnel" Do you agree with this statement, justify your answer with relevant examples  
(8 marks)

(Total 20 marks)

- 4.
- (a). What is meant by Marginal Rate of Substitution? (4 marks)
  - (b). Write down the formula for calculating Marginal Rate of Substitution (4 marks)
  - (c). Show Marginal Rate of Substitution in a graph (4 marks)
  - (d). If Marginal Utility function is given as  $U = X^{0.75}Y^{0.25}$ , find the Marginal Rate of Substitution (8 marks)

(Total 20 marks)



5. (a) Total cost function of a perfectly competitive firm is given as  $TC=25+5Q-2Q^2+Q^3$
- (i). Derive the firm's total fixed cost (TFC) function (2 marks)
  - (ii). Derive the firm's Average Fixed Cost function (AFC) (2 marks)
  - (iii). Derive the firm's Total Variable Cost function (TVC) (2 marks)
  - (iv). Derive the firm's Average Variable Cost function (AVC) (2 marks)
  - (v). Derive the firm's Average Cost function (AC) (2 marks)
  - (vi). Derive the firm's Average Marginal Cost (MC) function (2 marks)

(b) "Long run optimum price of a perfectly competitive firm will be equal to the minimum of long run Average Cost" Discuss this statement using graph where necessary. (8 marks)

**(Total 20 marks)**

6. (a). Discuss what is meant by the "Production Function"? (4 marks)
- (b). Elaborate on the major assumptions of a Production Function. (4 marks)
- (c). Provide an example for a Cobb-Douglas type of a Production Function. (2 marks)
- (d). Show the above (c) production function in a graph. (3 marks)
- (e). What is meant by returns to scale? (2 marks)
- (f). Discuss the three types of returns to scale. (3 marks)
- (g). What is the type of returns to scale of the example provided in above (c)? (2 marks)

**(Total 20 marks)**

7. Write an essay on "The Current Economic Situation and Future Prospects in Sri Lanka" (Total 20 marks)

8. Briefly explain any **four** of the followings (5 marks for each)
- (i). Price Determination in a Monopoly Firm
  - (ii). Monetary Policy
  - (iii). ECTA Agreement
  - (iv). Externalities
  - (v). Chamberlin's Monopolistic Competition Model
  - (vi). Impact of Budget proposals 2017 on Sri Lankan Economy
  - (vii). Weaknesses of National Income Accounting
  - (viii). Risk Averse Behavior of an Economic Agent

**(Total 20 marks)**