

Uva Wellassa University

Faculty of Management

Bachelor of Business Management in Entrepreneurship and Management

SECOND YEAR SECOND SEMESTER EXAMINATION - DECEMBER 2016/JANUARY 2017

EMG 241 - 3 Business Economics (Repeaters only)

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**Uva Wellassa  
University**



- (2).
- Define the term "Utility" (4 marks)
  - Discuss the basic properties of preferences (6 marks)
  - Show in a graph that the Marginal Rate of Substitution for a normal good is decreasing (4 marks)
  - If utility function (U) is given as  $U = 2X^{0.25}Y^{0.75}$  find;
    - $MU_X$  (2 marks)
    - $MU_Y$  (2 marks)
    - MRS (2 marks)
- (Total 20 marks)**

- (3).
- Estimated demand function for a good is given as  $Q_d = 100 - 2P + 0.5P_o + 0.1Y$  where,  $Q_d$  = Quantity demanded,  $P$  = Price,  $P_o$  = Price of other goods,  $Y$  = Income
- Find
    - Price elasticity of demand (3 marks)
    - Cross elasticity of demand (3 marks)
    - Income elasticity of demand (3 marks)

(Hint; you do not want to get the final figure)
  - Identify which type of good is this and comment on each elasticity looking at the estimated coefficients (4 marks)
  - Explain why knowing elasticity of demand for a good is important for a manager (7 marks)

- (Total 20 marks)**
- (4).
- Briefly explain what is meant by "Price Ceiling" (3 marks)
  - Show a Price Ceiling in a graph (3 marks)
  - What are the consequences of a Price Ceiling? (3 marks)
  - What is need to be done to make a Price Ceiling effective? (3 marks)
  - "It is necessary to pay tax by each individual in a society"  
Do you agree with this statement? Justify your answer. (8 marks)
- (Total 20 marks)**

- (5).
- TC function of a perfectly competitive firm for a particular product is given as follows  
 $TC = 250 + 28Q + 32Q^2 - Q^3$
- Derive the function of; (3 marks for each)
    - TFC
    - TVC
    - AFC
    - AVC
    - AC
  - "A monopolistic firm will not exit from the industry even if the market price is less than AVC". Discuss this statement using graphs. (5 marks)

**(Total 20 marks)**

- (6).
- (a). "Sri Lanka has been able to keep the inflation rate to one digit in recent years"  
Critically examine this statement (10 marks)
  - (b). Briefly explain the impact of Budget Proposal 2017 on Sri Lankan economy  
(10 marks)
- (Total 20 marks)**

- (7).
- Write short notes on any **five (5)** of the followings (4 marks for each)
- (a). Opportunity Cost
  - (b). High Powered Money
  - (c). Externalities
  - (d). Specialized Banks in Sri Lanka
  - (e). Production Possibility Frontier (PPF)
  - (f). Regression Techniques and Demand Estimation
  - (g). Monopoly market structure
  - (h). Relationship between inflation and unemployment
- (Total 20 marks)**

