



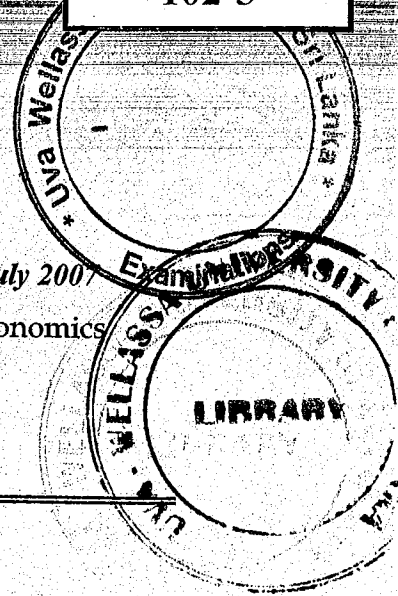
Uva Wellassa University

Faculty of Management

1st Year 2nd Semester Examination - June/July 2007

EMG 102 - 3 Project Management and Economics

- o Answer 3 (three) questions including question number 05
- o Time : 1 hour and 30 minutes
- o Calculators can be used



Part B: Economics

01. Suppose the market demand for cigarettes is: $Q_d = 10 - P$, and the supply of cigarettes is: $Q_s = -2 + P$, where P is the price per cigarette, Q_s and Q_d are quantity supplied and quantity demanded respectively. If the government imposes a cigarette tax of \$1 per cigarette

- i. What is the equilibrium price (before tax)?
- ii. What is the equilibrium quantity (before tax)?
- iii. What is the consumer surplus (before tax)?
- iv. What is the producer surplus (before tax)?
- v. What is the new equilibrium price (after tax)?
- vi. What is the new equilibrium quantity? (after tax)?
- vii. What is the price (of tax) faced by suppliers?
- viii. What is the price (of tax) paid by consumers?
- ix. What is the government revenue from the tax?
- x. What is the new producer surplus?
- xi. What is the new consumer surplus?
- xii. How much is consumers' tax burden?
- xiii. How much is producers' tax burden?
- xiv. What is the deadweight loss of the tax?
- xv. How can you justify a tax?

(16 marks)

02. Giving reasons, state whether the following statements are true or false.

- i. Sri Lanka opened its economy in 1994.
- ii. Trade deficit is a serious economic problem for a country.
- iii. A large budget deficit eventually increases the inflation (through increasing money supply).
- iv. 10 per cent change in investment demand will change 10 per cent in output.
- v. GDP can be defined as the sum of value added at every stage of production of all final goods and services produced by the people of a country within a given period of time.

- vi. Leisure time is not included in the national income accounting.
- vii. There are no entry barriers in the Monopoly market structure.
- viii. In the Monopoly both producers and consumers are price makers.
- ix. Monopoly produces homogenous goods and services.
- x. Pure Competitive producers earn economic profit, if P is higher than the ATC.
- xi. Short TVC will be increasing at an increasing rate.
- xii. There is only one fixed variable in the long run production functions.
- xiii. Floor price can create a black market.
- xiv. Assume, demand is elastic and supply is perfectly inelastic. Reduction of price of a substitute will decrease the supply of the concerned good.
- xv. Opportunity cost is the total value of next best alternatives.

(16 marks)

03. Mighty Land is a small open economy. Following information are given to you about economic behavior of the country.

$$C = 50 + 0.8Y_d, \quad \bar{I} = 70, \quad \bar{G} = 200, \quad \bar{X} = 100, \quad M = 0.3Y, \quad t = 0.15$$

Calculate

- i. Income multiplier
- ii. National income (Y) of the Mighty Land
- iii. Total tax revenue (T)
- iv. Disposable income (Y_d)
- v. Total consumption (C)
- vi. Total savings (S)
- vii. Total imports (M)
- viii. Total injections and total leakages
- ix. Prove that the leakages are equal to injections at the national income equilibrium
- x. What is the budget deficit?
- xi. What is the trade account balance?
- xii. If budget deficit is increased by 50, what is the new value of national income (Y)?

(16 marks)

04.

- i. Define money
- ii. State the functions of money
- iii. What is the high powered money and discuss importance of it?
- iv. Explain the Money Multiplier
- v. What is your view on current monetary policy in Sri Lanka?

(16 marks)