

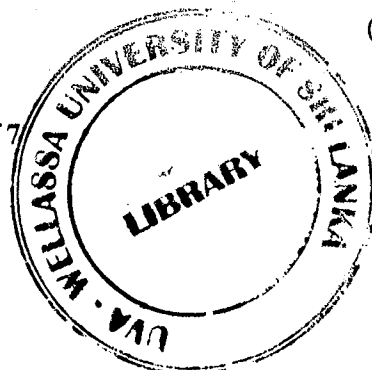
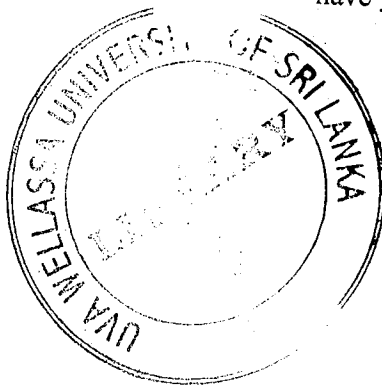
- (2). Read the following case and answer the questions set on it. In this assignment, please be explicit about your assumptions.

You have done a management project during your yearend vacation of the second year for a small group of 3 partners trying to set up a dot-com, to be known as ETBUWU.com. The web-site will provide financial and marketing advice to other start-ups, so there will be no direct production costs other than researching and writing the material to be provided on the web-site. As part of the project, you have established that the company will face the following costs:

- Rs. 1,500,000 for computers, phones and a fax machine
- Rs. 100,000 office consumables annually
- Rs. 150,000 for annual subscription fees for an internet provider
- Rs. 1,000,000 annual advertising fees for advertising their web-site on other web-sites
- Rs. 3,000,000 for subscriptions to other financial information services

Depreciation on office equipment is 33 1/3% per annum for three years. You also know that each member of the group currently has a job that he or she is considering quitting to work on the project. Nimal currently earns Rs. 6,000,000 a year, Kamal earns Rs. 7,500,000 per year and Sunil earns Rs. 3,500,000 per year working on part-time (the equivalent of half-time) so that he can stay at home and take care of the children during the rest of the time.

- (a) If you were an Accountant, what would you tell them on their annual costs of providing their services? (02 marks)
- (b) What costs have you included to make your calculation? (02 marks)
- (c) Would your answer be the same if you were an economist valuating the project? (02 marks)
- (d) How would the two answers differ? (02 marks)
- (e) Suppose you estimate that demand for their service would be approximately 1,000 subscribers in the first year at Rs. 10,000 per subscription. Would they make a profit? (02 marks)
- (f) How many subscribers would the company have to have to make a profit? (02 marks)
- (g) Does your answer depend upon whether or not you are acting as an accountant or as an economic adviser? (02 marks)
- (h) You are about to start the final year of your degree. Suppose ETBUWU.com offers you a job with the start-up at a salary of Rs. 8,000,000 per year. You also have an offer from a consulting firm of Rs. 10,000,000 in a year's time, provided you finish your degree. What additional information would you like to assist in your decision-making? Which offer would you take and why? What assumptions have you made in making your decision? (02 marks)



(i) Does your answer to question 8 change if the start-up offers you Rs. 6,000,000 plus a share of the profits for the next five years? Why or why not? , Justify your answer. (02 marks)

(j) Does your answer to question 8 change if ETBUWU.com offers you Rs. 6,000,000 plus shares in the company? Why or why not? (02 marks)

(Total 20 marks)

(3).

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? (01 mark)
- (o). How can you justify a tax? (03 marks)
- (p). Discuss briefly on profit tax (03 marks)

(Total 20 marks)

(4).

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

Draw the appropriate graph.

(04 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			
5		75		20			

(i) Complete the blank columns.

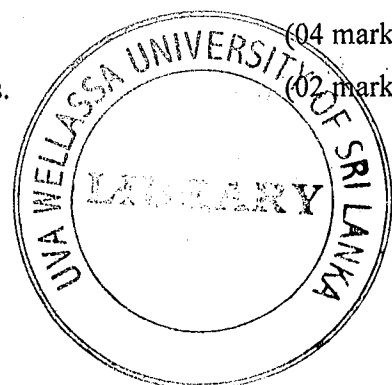
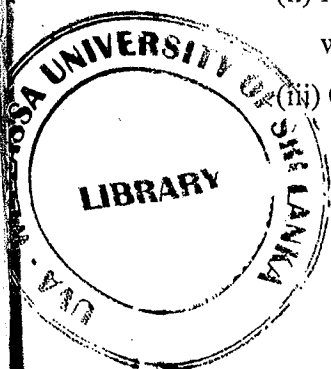
(06 marks)

(ii) How many unit of output firm will sell to maximize its profit? How much profit will it make?

(04 marks)

(iii) Calculate AVC and AFC when output is 4 units.

(02 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? (04 marks)

(Total 20 marks)

- (5).
- (a). Briefly explain monetary and fiscal policies (06 marks)
 - (b). Graphically explain the effectiveness of fiscal and monetary policies under Classical and Keynesian aggregate supply assumptions (08 marks)
 - (c). Which policy is the most effective policy in the current Sri Lankan context? Explain and justify your answer. (06 marks)
- (Total 20 marks)

- (6).
- (a). "Sri Lanka have achieved goal of reducing unemployment rate to less than 4 per cent successfully in recent years" Critically examine this statement (10 marks)
 - (b). Briefly explain the impact of Budget Proposal 2016 on Sri Lankan economy (10 marks)
- (Total 20 marks)

- (7).
- Write short notes on **five (5)** of the following (4 marks for each)
- (a). Production Possibility Frontier (PPF)
 - (b). Regression Techniques and Demand Estimation
 - (c). Banking Institutions of Sri Lanka
 - (d). Monopoly market structure
 - (e). Positive externalities
 - (f). Risk returns evaluation statistics
 - (g). Relationship between inflation and unemployment
- (Total 20 marks)

