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Uva Wellassa University
BSc in Export Agriculture
Bachelor of Animal Science
BSc in Tea Technology and Value Addition
BSc in Palm and Latex Technology and Value Addition

Uva Wellassa University

End Semester Examination – August/ September 2011
Year I Semester II

Economic Thinking in Agriculture (EAG 121-3/0)

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Instructions

Answer **All** questions

No. of questions : Three (03)
No. of pages : Two (02)
Time : One hour (1 hr)
Total marks allocated : 40/100

Part III – Essay

Question 01

I. "The consumer demand rest on the concept of utility". Explain this statement using an example.

II. "Consumer's intention is to maximize satisfaction". Explain this statement.

III. "A student spends Rs. 18 per day for his tea and biscuits and teas to maximize his utility. Price of a cup of tea and a biscuit is Rs. 4 and 2, respectively. The following table provides data derived on this utility function.

Units	Total utility	
	Tea	Biscuit
1	12	10
2	22	15
3	30	19
4	36	21
5	40	23
6	41	25
7	39	26
8	34	26
9	26	25
10	16	23

a) Calculate marginal utility for each good for each level of consumption.

b) At the maximum utility level, find the number of units he consumes.

c) If he can spend Rs. 32, how he allocates the budget to receive maximum satisfaction under the same prices of the goods?

d) If the price of a biscuit is increased to Rs. 4, how he receive maximum satisfaction under new budget?

Question 02

I. Comment. "It is rational to produce when the market price of the output is less than the lowest average cost rather than closing the firm when the industry is in perfect competition".

II. Why monopoly exists?

III. Prove that the slope of the **MR** curve is twice that of the demand curve of a monopolistic firm.

IV. Demand curve of a monopolistic producer is $\mathbf{P = 100 - 2q}$ where P is the price and q is the quantity. The total cost function of the firm is $\mathbf{C = 50 + 40q}$

a) What is the maximum possible profit of the firm?
b) If the marginal cost is zero what is the profit maximizing output level

Question 03

I. The equilibrium level of income Given $\mathbf{C = \$\ 20 + 0.80Y_d}$, $\mathbf{I = \$\ 50}$, $\mathbf{G = \$\ 20}$, $\mathbf{Y_d = Y - NT}$,

$$\mathbf{NT = TX_0 - TR_0,\ TR_0 = 0\ \&\ TX_0 = \$10}$$

a) Find equilibrium income
b) Find consumption & saving at the equilibrium level of income
c) Show the equality of leakages & injections from the spending flow at equilibrium

II. What is the difference between demand – pull inflation and cost – push inflation?

III. Explain the main sources of unemployment

IV. Explain the relationship between unemployment & inflation rate using the Phillip's Curve.