



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



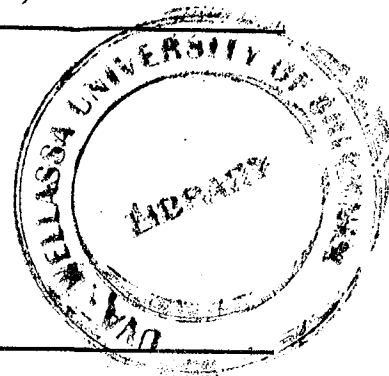
End Semester Examination – August/ September 2011
Year I Semester II

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

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 $P = 100 - 2q$ where P is the price and q is the quantity. The total cost function of the firm is $C = 50 + 40q$
 - 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 $C = \$ 20 + 0.80Y_d$, $I = \$ 50$, $G = \$ 20$,
 $Y_d = Y - NT$,
 $NT = TX_0 - TR_0$, $TR_0 = 0$ & $TX_0 = \$10$
 - 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.