

Economics Thinking in Business  
2<sup>nd</sup> Year 1<sup>st</sup> Semester - 2008

(20 marks)

Part C  
Essay Type Questions  
Answer Three Questions only

- 2008

01. Suppose a Person has Rs. 80.00 to spend on Apples (A) and Oranges (O) (He consumes only Apple and Oranges). Price of an Apple is Rs. 4.00 and the price of an Orange Rs. 1.00.

Utility function of this person =  $(AO)^{1/2}$

- i. If the person buys only Apple or only Oranges, how many Apples or Oranges can be brought?
- ii. If he wants to buy 10 Apples, how many Oranges can be brought?
- iii. If this person consumes one less Apple (that is nine), how many more oranges can be brought?
- iv. Write down the algebraic equation for this person's budget constraint
- v. Graph the budget constraint and show the points of question i, ii and iii. in the graph
- vi. If  $A = 5$  and  $O = 80$ , what will be the utility of this person?
- vii. If  $A = 10$ , what value of  $O$  will provide the same utility as in question vi?
- viii. If  $A = 20$ , what value of  $O$  will provide the same utility as question vi and vii?
- ix. Graph the indifference curve implied by question vii, viii and ix
- x. Graph the utility maximizing Apples and Oranges combination and show all the other combinations will generate less utility levels

(20 marks)



02. Total cost function of a Monopolistic firm is given by

$$TC = 1,000 + 200Q - 9Q^2 + 0.25Q^3$$

- i. Determine
  - a. TFC and TVC functions
  - b. AFC, AVC, AC and MC functions
- ii. What should be the price at breakeven point?
- iii. What should be the lowest price that this firm to operate in the market?
- iv. A perfectly competitive firm sells its output for Rs 44 per unit and has a total cost function
$$TC = 16 + 17Q - 9Q^2 + Q^3$$
  - a. Determine the firm's total profit function
  - b. Determine the firm's marginal profit function
  - c. What is the output at Break-even point?
  - d. Will this firm operate in the long run?

(20 marks)

03. Discuss the following using your own examples

- i. Elements of a game pay-off matrix
- ii. A Nash equilibrium
- iii. Prisoners' Dilemma type problems
- iv. Dominant strategies
- v. Maximin strategies
- vi. Cooperative and Non Cooperative games
- vii. Repeated Game

(20 marks)

04.

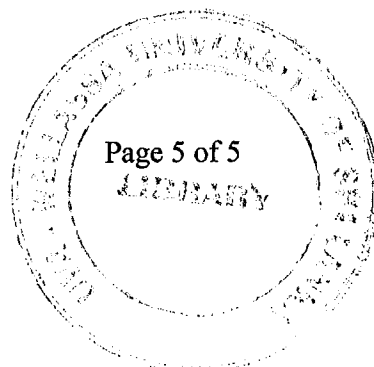
- i. What is unemployment?
- ii. Discuss four types of unemployment
- iii. What is the cost of unemployment
- iv. How inflation is measured?
- v. Discuss four types of inflation
- vi. What is the cost of inflation?
- vii. How will you explain the unemployment and inflation situation in Sri Lanka (rates, causes and remedial policies)

(20 marks)

05. Write short notes on five (5) of the following topics

- i. Production Possibility Frontier (PPF)
- ii. Regression Techniques and Demand estimation
- iii. Substitution and Income effects of a price change
- iv. Monopoly market structure
- v. Positive externalities
- vi. Risk returns evaluation statistics
- vii. Market for insurance
- viii. Philip's Relationship

(20 marks)



14