

Uva Wellassa University

Faculty of Management

Bachelor of Business Management in Entrepreneurship and Management

FIRST YEAR SECOND SEMESTER EXAMINATION – DECEMBER 2016/JANUARY 2017

ENM 172 - 2 Business Economics

---



Uva Wellassa  
University



(2).

- (a). What is an indifference curve, show it in a graph (4 marks)
- (b). Explain the concept of Marginal Rate of Substitution (MRS) using the above graph (4 marks)
- (c). Graphically illustrate the following preferences (2 marks for each)
- i). Useless good
  - ii). Economic bad
  - iii). Perfect substitute
  - iv). Perfect Complement
  - v). Normal good
- (d). If  $U = (XY)^{1/2}$ ,  $P_x = 5$ ,  $P_y = 10$ ,  $I = 100$ , find the optimum bundle of X and Y (X and Y are goods, P is Price, I is Income) (7 marks)
- (Total 25 marks)**

(3).

$Q_D = 12 - 0.3P_X + 0.2P_Y - 0.02P_Z + 0.15I$  where  $Q_d$  = Quantity Demanded,  $P$  = Price,  $X, Y, Z$  = goods and  $I$  = income.

(a). Calculate

- i). Price elasticity of demand (3 marks)
- ii). Cross elasticities of demand (3 marks)
- iii). Income elasticity of demand (3 marks)

(Hint: no final figures required)

- (b). Using the above equation, define the types of good X, Y, and Z (6 marks)
- (d). Explain why the concept of elasticity (Price, Cross and Income) is important for a Manager (10 marks)

**(Total 25 marks)**

(4).

“Even though the free market equilibrium is the most preferred efficient solution, government intervention is seen in the market as Price Ceiling, Floor Pricing and Tax”.

Explain the use of Price controls and tax by government, and discuss the cost and benefits of them. Use graphs where necessary to explain your answer.

**(Total 25 marks)**



(5).

- (a). Define Aggregate Demand (5 marks)
  - (b). Differentiate Classical Aggregate Supply and Keynesian Aggregate Supply using graphs (4 marks)
  - (c). How economic growth is explained under Classical Aggregate Supply Curve? (7 marks)
  - (d). What is meant by "Supply Side Economics"? (3 marks)
  - (e). Graphically explain the effectiveness of supply side economic policies under Classical and Keynesian aggregate supply curves (6 marks)
- (Total 25 marks)**

(6).

- (a). "Sri Lanka failed to achieve 7 per cent of economic growth in 2015"  
Critically examine this statement providing the causes and consequences of having a lower level of economic growth (12 marks)
  - (b). Briefly explain the impact of Budget Proposal 2017 on Business Sector (13 marks)
- (Total 25 marks)**

(7).

Write short notes on **five (5)** of the following

(5 marks for each)

- (a). Opportunity Cost
- (b). Long Run Production Equilibrium
- (c). High Powered Money
- (d). Monopolistic Competition
- (e). Externalities
- (f). Liquidity Trap
- (g). Specialized Banks in Sri Lanka
- (h). Economic Profit

**(Total 25 marks)**