

Uva Wellassa University

Faculty of Management

Degree of Bachelor of Business Management in Entrepreneurship and Management

SECOND YEAR SECOND SEMESTER EXAMINATION – AUGUST-SEPTEMBER 2011

EMG 242 -3 Business Economics



Instructions to candidates:

No. of pages : Six (06)
No. of questions : Seven (07) Structured
Four (04) Essay
Time : Two (02) hours and thirty (30) Minutes
Marks allocated : 80 Marks

Index No:



Part C - Essay Question

Marks allocation: 45 Marks

Answer only three (3) questions including question no. 01

01. An empirical Total Cost (TC) function of a firm has been estimated based on the following initial model. $TC = \beta_0 + \beta_1Q + \beta_2Q^2 + \beta_3Q^3$. Answer the following questions based on the estimated regression output.

Source	SS	df	MS			
Model	38918.1562	3	12972.7187	Number of obs =	10	
Residual	64.7438228	6	10.7906371	F(3, 6) =	1202.22	
				Prob > F =	0.0000	
				R-squared =	0.9983	
				Adj R-squared =	0.9975	
				Root MSE =	3.2849	
Total	38982.9	9	4331.43333			

TC	Coef.	Std. Err.	t	P> t	[95% Conf. Interval]	
Q	63.47766	4.778607	13.28	0.000	51.78483	75.17049
Q2	-12.96154	.9856646	-13.15	0.000	-15.37337	-10.5497
Q3	.9395882	.0591056	15.90	0.000	.794962	1.084214
_cons	141.7667	6.375322	22.24	0.000	126.1668	157.3665

- I. Construct the Total Cost function.
 - II. Find the Total Variable Cost (TVC), Average Variable Cost (AVC), Average Cost (AC) and Marginal Cost (MC) functions?
 - III. Calculate the levels of output (Q) which minimize the Variable Cost (AVC), Average Cost (AC) and Marginal Cost (MC) functions.
 - IV. Describe the value of Coefficient of Determination (R^2).
 - V. Check the overall significance of the model and individual significant of coefficients at 1 % significance level.
- (3x5=15 Marks)

02.

- I. "Technological progress will increase the economic growth". Justify this statement by taking labor augmented technology. (Mathematical derivations are highly recommended)
(8 Marks)
- II. "The effectiveness of the expansionary fiscal policy depends on the crowding out effect". Explain this statement by using necessary illustrations.
(7 Marks)

(8 + 7 = 15 Marks)

03. Information about a hypothetical economy is given below.

$$C = 200 + 0.75Y_d$$

$$T = 0.25Y$$

$$I = 100 - 500r$$

$$M = 35 + 0.1Y$$

$$G = 90$$

$$X = 85$$

$$MD = 0.2Y - 220r$$

$$MS = 1000$$

$$P = 10$$

- I. Find the level of income and interest rate when both goods and money market at the equilibrium level.
- II. Calculate the value of Consumption multiplier, Export multiplier and Import multiplier.
- III. Calculate the value of Fiscal policy multiplier and Monetary policy multiplier.
- IV. If government is going to decrease the government expenditure (G) down equal to 70, find the new equilibrium.
- V. Find the Crowding in effect of expanding government expenditure and show it graphically.

(3x5=15 Marks)

04. Briefly explain the followings

- I. Macroeconomic equilibrium
- II. Kinked demand curve
- III. Income consumption curve

(5x5=15 Marks)

