IHRA
UNIVERSITY OF COLOMBO

Institute of Human Resource Advancement
University of Colombo, Sri Lanka

Master of Human Resource Management – Course No. 10
1st Trimester Examination

(Held in July, 2020)

MHRM 5133 – Business Economics

Instructions to the Candidates

(1)　Answer four (04) Questions & Question No. 01 is compulsory.

(2)　This paper consists of six (06) Questions and four (04) pages.

(3)　Time allocated for the examination is three (03) hours.

(4)　If a page or a part of this question paper is not printed properly, please inform the Supervisor immediately.

(5)　Use of any equipment /items such as mobile phone is prohibited, and Rules and regulations of university examinations should be strictly followed.

01. As the COVID-19 pandemic continues to evolve, businesses need to stay agile to respond against both operational and financial challenges posed by this coronavirus, which is currently severely affecting the supply chains and buyer demands in almost all the businesses of the country.

a) Briefly explain the possible impact of COVID-19 pandemic on Sri Lankan economy.

(04 Marks)

b) Select any industry or sector of your choice and discuss the possible impact of COVID-19 on the same industry or sector in following aspects:

    i.   Level of Employment   **(02 Marks)**

    ii.   Income Generation   **(02 Marks)**

    iii. Level of Supply   **(02 Marks)**

    iv. Supply Chain   **(02 Marks)**

    v.   Level of Demand   **(02 Marks)**

c) What are major business strategies and policy measures to be implemented for the resilience building and recovery of the industry?

(05 Marks)

d) Discuss the most suitable pricing and non-pricing strategies to be applied by business operators to recover and to make more resilience against the impact of COVID 19 on this industry/ sector.

(06 Marks)

02. Explain following concepts with the support of suitable examples, curves, figures, tables and empirical data:

a) Backward and Forward Linkages   **(03 Marks)**

b) Direct, Indirect and Induced Impact   **(03 Marks)**

c) Ease of Doing Business Index   **(03 Marks)**

d) Characteristics of New Economic Trends   **(3 Marks)**

e) Differences between "Old" and "New" Economies   **(03 Marks)**

f) Infant Industries and Market Failures   **(03 Marks)**

g) Sustainable Development and Five "P"s   **(03 Marks)**

h) Absolute Advantages and Comparative Advantage   **(04 Marks)**

03. Assume that the supply and demand for soft drinks produced by Dharshana's Company are identified as:

$Q_d = 20 - P$ and $Q_3 = 3P$

a) Calculate the equilibrium price and quantity.

(02 Marks)

Suppose now the government impose a per-unit tax of Rs. 4 on the sellers.

b) Calculate for the new quality, net price sellers received, and price consumers paid.

(03 Marks)

c) Calculate the government revenue from the taxation.

(02 Marks)

d) Calculate the deadweight loss resulting from the taxation. Calculate and illustrate what portion of the deadweight loss used to belong to each party.

(05 Marks)

e) What fraction of the economic incidence of the tax is borne by consumer?

(02 Marks)

f) Explain what would happen to your analysis if instead of imposing tax on the sellers, the government divides the legal burden of Rs. 1.11 per unit to consumers and Rs. 2.89 per unit to producers.

(03 Marks)

g) Assume that Dharshana's Company has been affected by COVID-19 serverely:

i. What are the possible changes would happen the market equilibrium of the soft drink?

(03 Marks)

ii. If government is to provide financial assistance to this company then explain what kinds of assistance should provide Dharshana's Company to recover and resilience of the business.

(05 Marks)

04. Consider two consumers are demanding Darshana Company's soft drink with following liner demand curves. This soft drink is provided for tourists only:

$$Qd_1 = 20 - 2.5P_{SD} + 0.1\, I_1 + 2.25P_K$$

$$Qd_2 = 30 - 1.5\, P_{SD} + 0.05\, I_2 + 1.75P_K$$

Where

P_{SD}	=	Price of soft drink
I_i	=	Individual i's income (in thousands of Rupees)
P_K	=	Price of Kotthu

(a) Suppose that $I_1 = 30$, $I_2 = 60$ and $P_K = 2$ then construct the Market Demand Equation and Curve for soft drink (Assume that consumers 1 and 2 constitute the entire market for soft drink).

(05 Marks)

(b) Graph this market demand curve as the demand curve D_1

(02 Marks)

(c) Suppose the price of kotthu (P_K) increases to \$3. Identify the new market demand curve as D_2. Plot this new demand curve on your original graph as D_2. How do you explain this change with the aid of your theoretical knowledge?

(07 Marks)

(d) Suppose that the price of soft drink is increased at \$2. (Previous P_{SD} = \$1.)
    I.   Identify the price elasticity of demand at \$2.

(02 Marks)

    II.   Explain in what direction would the Company change its price to increase the company's revenues.

(03 Marks)

    III.   Identify the Cross – Price Elasticity of the demand of soft drink.

(02 Marks)

    IV.   Explain the relationship between kotthu and soft drink by using the value of Cross – Price Elasticity of the demand of soft drink.

(02 Marks)

    V.   Calculate the Income Price Elasticity of two consumers separately and interpret these elasticity values by using your theorical knowledge.

(02 Marks)

05. State whether each of the following statements is true or false. Explain your answers using the support of suitable curves, tables and examples.

    a) In the long run, a perfect competition will not produce at minimum ATC as there are too many firms producing too little output to achieve minimum ATC.

(05 Marks)

    b) In oligopoly market structure, an analysis of Non-Collusive Model identifies the stickiness of prices due to a large number of firms with homogeneous products.

(05 Marks)

    c) The market demand and the firm's demand are the same for an oligopoly firm.

(05 Marks)

    d) A monopolistic firm has a large number of firms that sell similar but slightly different products.

(05 Marks)

    e) As the degree of product differentiation increases among the products sold in a monopolistically competitive industry, each seller's demand becomes more inelastic.

(05 Marks)

06.

    a) Explain the factors affecting the pricing decisions of a firm.

(05 Marks)

    b) Discuss Three C's Model for Price Setting.

(05 Marks)

    c) What are the possible stages of setting pricing policy of a firm?

(05 Marks)

    d) Explain the following by using suitable examples from current business operations
        i. Product Life Cycle Pricing Strategies

(02 Marks)

        ii. Cost-Plus Pricing

(02 Marks)

        iii. Dynamic Pricing

(02 Marks)

        iv. Value-Based Pricing

(02 Marks)

        v. Skimming Pricing

(02 Marks)

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