IHRA
UNIVERSITY OF COLOMBO

INSTITUTE OF HUMAN RESOURCE ADVANCEMENT

UNIVERSITY OF COLOMBO, SRI LANKA

Masters Degree in Business Management - Course No.01

3rd Semester Examination

(Held in January, 2014)

MBM 10 – Managerial Economics

Instructions to the Candidates

(1) Total number of pages – Six (07)

(2) Total number of questions – Part I Twenty (20) and Part II Five (05)

(3) **Answer all questions of part one** and answer three questions of part two. Use the separate mark sheet for Part I

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

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

(6) Write your index number in all pages of answer script

(7) Tie up all answer sheets at the end of the examination

Part I

1) The science of economics stems from the fact that:

a) The production possibilities curve is bowed inward to the origin.
b) Resources are scarce relative to people's demand for goods and services.
c) Individuals and institutions behave only in their self-interest.
d) Historically the production possibilities curve has been shifting toward the origin.

2) A "Smooth" convex (bowed in) production possibilities curve would indicate
a) Increasing opportunity costs
b) The slope is getting smaller, then bigger, then smaller in absolute value.
c) A large economy with many workers.
d) Decreasing opportunity costs.

3) Which of the following would cause the demand for a product to shift to the right?

a) An increase in the price of a substitute good
b) An increase in the price of a complementary good
c) An increase in a cost of production
d) An increase in the price of the product

4) How do you recognize a product if the demand for a particular product increases when the price of that product is rising?
a) An inferior good
b) Luxurious good
c) Demand has shifted to the left
d) None of these answers

5) Because of unseasonably rainy weather, the supply of oranges has substantially decreased. "This statement indicates that:

a) The demand for oranges will necessarily rise.
b) The equilibrium quantity of oranges will rise.
c) The amount of oranges that will be available at various prices has declined.
d) The price of oranges will fall.

6) A leftward shift of a product supply curve might be caused by:

a) an improvement in the relevant technique of production.
b) a decline in the prices of needed inputs.
c) an increase in consumer incomes.
d) some firms leaving an industry.

7) With a downward sloping demand curve and an upward sloping supply curve for a product, a decrease in resource prices will:

a) increase equilibrium price and quantity.
b) decrease equilibrium price and quantity.
c) decrease equilibrium price and increase equilibrium quantity.
d) increase equilibrium price and decrease equilibrium quantity.

8) The law of supply:

a) reflects the amounts that producers will want to offer at each price in a series of prices.
b) is reflected in a downward sloping supply curve.
c) shows that the relationship between producer revenue and quantity supplied is negative.
d) reflects the income and substitution effects of a price change.

9) Suppose that the demand for Galle Expressway bus tickets has a price elasticity of demand of 1.5. This tells us that

a) If Galle Expressway increases the price of bus tickets by 10%, the percentage change in the quantity of bus tickets demanded will be less than 15%.
b) If Galle Expressway increases the price of bus tickets by 20%, the percentage change in the quantity of bus tickets demanded will be greater than 15% but less than 30%.
c) If Galle Expressway decreases the price of bus tickets by 20%, the percentage change in the quantity of bus tickets demanded will be equal to 30%.
d) If Galle Expressway decreases the price of bus tickets then the quantity of bus tickets demanded will also decrease since the price elasticity of demand is a positive number.

10) When the price of Managerial Economics book is $10, Prasan Bookstore sells 500 books per week. When the price of this book is $12, Prasan Bookstore sells 480 books per week. Holding everything else constant, from this information we can conclude that the demand for cookery book at Prasan Bookstore is

a) Elastic.
b) Inelastic.
c) Unitary
d) None of above

11) Suppose that the demand curve for potatoes is given by the equation $Q^d = 200 - 4P$ and the supply curve for potatoes is given by the equation $Q^s = 2P$. From this information we can conclude that when this market is in equilibrium demand for potatoes is

a) Elastic.
b) Inelastic.
c) Perfectly Elastic
d) None of above

12) Suppose that the income elasticity of demand for potatoes is equal to - 0.5. Holding everything else constant, if income decreases then

a) The quantity of potatoes demanded will increase.
b) The quantity of potatoes demanded will decrease.
c) No Change
d) None of above

13) The cross-price elasticity of demand for Kumar Yogurt is equal to 2.4. From this information Kumar Yogurt producer concludes that

a) The price should be increased.
b) The price should be decrease.
c) The price should not be changed
d) None of above

14) If two goods are complements, then

a) The cross price elasticity of demand is negative
b) The cross price elasticity of demand is zero
c) The cross price elasticity of demand is positive
d) The cross price of elasticity of demand is infinity

15) The prices statutorily determined by the government for certain important goods like steel, cement, etc., is called

a) Mark-up pricing.
b) Customary pricing.
c) Full cost pricing.
d) None of above.

16) Suppose that the market demand and market supply curves for a good are given by the following equations:

Market Demand: Q_d $100 - 10P$
Market Supply: $Q^s = 10P$

The equilibrium market price of this product is

a) \$35 per unit.
b) \$45 per unit.
c) \$75 per unit
d) None of above

17) If average cost is at a minimum, then

a) It is equal to marginal cost
b) Total cost is also at a minimum
c) Profit is at a maximum
d) All of the above are true

18) Economies of Scale means

a) Increasing scale of the production
b) Changing pricing strategies
c) Growth in production
d) None of above

19) Price Skimming is:

a) Prices reduction to the minimum point of Average cost
b) Non-price competition
c) Higher price with higher qualities
d) None of above

20) MRP refers

a) Multiplication of Marginal Product (MP) with the price of own product
b) Diminishing Marginal Product
c) Marginal Returns of Product
d) None of above

Part II

(1) a) What is meant by Opportunity Cost?

(5 Marks)

b) Explain the factors that can shift a Production Possibility Curve/Production Possibility Frontier (PPC/PPF) to the left.

(5 Marks)

c) Draw PPC/PPF to illustrate the followings and to explain the possible impact of each on a hypothetical economy

a) Increase training facilities for public sector operation
b) Government investments on road development
c) Improve the technology for agricultural product development
d) Increasing unemployment
e) Economic growth by 10 percent
f) Elimination of terrorism

(10 Marks)

(Total 20 marks)

(2) a) Discuss following concepts with the support of suitable curves and practical examples.

i. Inelastic Price Elasticity of Demand
ii. Inelastic Income Elasticity of Demand
iii. Elastic Cross Price Elasticity of Demand
iv. Inelastic Price Elasticity of Supply

(10 Marks)

a) Discuss the "Elasticity Pessimism" with the depreciation of rupees for international trade development in Sri Lanka.

(10 Marks)

(Total 20 marks)

(3) Suppose that following information is derived from a market of vegetable.

Market Demand: $P = 400 - 4Q$

Market Supply: $P = 4Q$

a) Explain the possible implications of the supply equation of this market.

b) Find the equilibrium price and quantity of this market.

c) Draw a diagram of this market with an effective price ceiling of Rs 20

d) Explain the possible reasons that can demand for such price ceiling.

e) What are possible consequences of such price ceiling (explain your answer with suitable curves and practical examples)?

f) Examine the possible strategies that can overcome the possible negative impact of such price ceiling.

g) If government imposes a unit tax of Rs 2 for the supply of this product (before the price ceiling) then calculate following:

i. New equilibrium price and quantity of the market

ii. Tax burden taken by consumers and suppliers

iii. Government expected tax revenue and actual amount

iv. Deadweight loss

(20 Marks)

(4) a) What is meant by long-run and short-run cost function of a firm?

(5 Marks)

b) Explain the relationships among Total Cost (TC), Marginal Cost (MC), Average Cost (AC) and Average Variable Cost (AVC) with the assistance of suitable equations and curves.

(5 Marks)

c) What are the major reasons for creating differences in the costs of short run and long run of a firm? Use relevant equations and curves to explain your answer.

(5 Marks)

d) Explain the following concepts with suitable examples:

i. Technical efficiency and Economic efficiency

ii. Marginal Product of Labour (MP_L) and Marginal Revenue Productof Labour (MRP_L)

(5 Marks)
(Total 20 marks)

(5) a) What are the possible objectives of a firm in pricing its products?

(5 Marks)

b) Explain the factors that can determine the pricing strategies of a firm?

(5 Marks)

c) Discuss the possible pricing strategies that can be applied at the different stages in the product's life cycle of a firm.

(5 Marks)

d) Using suitable examples, explain the following pricing strategies in the context of business operation

i) Price Fixing and Cartel Operations

ii) Destroyer/Predatory Pricing

iii) Absorption/Full Cost Pricing

vi) Value-Based Pricing

v) Product-Line Pricing

(5 Marks)

(Total 20 marks)