



**University of Kelaniya – Faculty of Social Sciences**

**Academic Year 2016/2017**

**Bachelor of Arts (Special) Degree First Year**

**First Semester Examination- August 2018**

**Economics/Social Statistics**

**ECON 21414/SOST 21434 – Introductory Microeconomics**

**Answer only Four (04) questions.**

**No. of Questions: 08**

**Time: 03 hours**

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01. i. Define the utility function. What are the conditions that the utility function should be satisfied? (06 Marks)
- ii. What are the basic assumptions of marginal utility theory of consumer behavior? (07 Marks)
- iii. Explain the strengths and weaknesses of marginal utility theory. (07 Marks)
02. i. What is the fundamental difference between marginal utility theory and indifference curve analysis? (05 Marks)
- ii. Describe the properties of indifference curves of a rational consumer? (05 Marks)
- iii. Derive the equilibrium conditions of a rational consumer based on the indifference curve framework *either* graphically *or* mathematically. (10 Marks)

03. i. Describe the substitution effect and income effect of change of the price of a commodity. (06 Marks)
- ii. Isolate these two effects of the decrease of the price of a commodity with the aid of a graph. (08 Marks)
- iii. Define the 'Price Consumption Curve' (PCC) and derive it graphically. (06 Marks)
04. i. What do you mean by a production function? What is the difference between short-run and long-run production functions? (06 Marks)
- ii. Define the iso-product curve and explain the properties of iso-product curves of a rational producer. (07 Marks)
- iii. Describe the laws of returns to scale. Illustrate these laws using iso-quant maps. (07 Marks)
05. i. What do you mean by a cost function? (04 Marks)
- ii. Explain the following concepts of cost of production and illustrate them using appropriate graphs separately.
- |                                 |                        |
|---------------------------------|------------------------|
| (a) Average Fixed Cost (AFC)    | (c) Average Cost (AC)  |
| (b) Average Variable Cost (AVC) | (d) Marginal Cost (MC) |
- (03 Marks each)
- iii. Show all above cost curves together in a single diagram. (04 Marks)
06. i. Explain the characteristics of the perfectly competitive market model. (05 Marks)

- ii. Illustrate the short-run equilibrium of a perfectly competitive firm graphically. Can the firm earn supernormal profit always in the short-run?

(07 Marks)

**AND**

- iii. 'Perfectly competitive firm can earn only normal profit in the long-run.' Do you agree? Explain.

(08 Marks)

**OR**

In a City there is a large number of firms selling a product and no single firm has any control over the price of the product. The following total cost (TC) and total revenue (TR) functions are associated with a single seller;

$$TR = 10Q$$

$$TC = 1000 + 2Q + 0.01Q^2$$

Determine how many units of the product a firm will produce if it aims at profit maximization. Also find out total profit made by it in the equilibrium situation.

(08 Marks)

07. i. Define the monopoly market model. Explain under what conditions this type of market model can be developed.

(06 Marks)

**AND**

- ii. The demand and cost functions of a monopoly firm are given as.

$$D(X) = 160 - 2P \text{ and } C(X) = 5X + 0.5X^2$$

- a. Find the equilibrium quantity, price and total profit of the firm.

(07 Marks)

- b. If the firm is regulated and operates under perfect competition, find the equilibrium quantity, price and profit. Compare these values with monopoly values.

(07 Marks)

**OR**

- ii. a. What is meant by 'Price discrimination;? Explain in detail. (05 Marks)
- b. "Price discrimination can be practiced only by the monopoly." Do you agree? Explain. (04 Marks)
- c. Describe different types of price discrimination with the aid of graphs. (05 Marks)
08. i. Explain the characteristics of monopolistic competition. (05 Marks)
- ii. Show that the monopolistically competitive firm can earn supernormal profit in the short-run equilibrium. (07 Marks)
- iii. Show that the monopolistically competitive firm operates with excess capacity although it earns normal profit in the long-run equilibrium. (08 Marks)