University of Kelaniya – Faculty of Social Sciences

Academic Year 2015/2016

Bachelor of Arts (Special) Degree First Year

First Semester Examination- August 2017

Economics/Social Statistics

ECON 21414/ SOST 21434 – Introductory Microeconomics

Answer any Four (04) questions only.

No. of Questions: 08 **Time: 03 hours**

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01. i. Briefly discuss the different approaches adopted by economists in order to define economics. (12 Marks)

ii. Discuss the difference between microeconomics and macroeconomics. (06 Marks)

iii. Give two statements on positive economics and normative economics. (02 Marks)

02. i. Describe the assumptions of cardinal utility approach. (07 Marks)

ii. Using appropriate diagrams explain how demand curve is derived based on the law of diminishing marginal utility. (07 Marks)

iii. What are the strengths and weaknesses of this approach? (06 Marks)

03. i. "Indifference curve approach is said to be an ordinal approach" Do you agree? Explain. (04 Marks)

06. i. What is meant by firm's equilibrium? Explain the conditions of short-run equilibrium of a firm operating under perfect competition.

(06 Marks)

ii. In a city, there is a large number of firms selling a product and no signal firm has any control over the price of the product. The following total cost and revenue functions are given for a single seller.

$$TR = 10Q$$

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

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

(08 Marks)

iii. What is meant by economic efficiency? Explain how economic efficiency can be achieved under perfect competition?

(06 Marks)

07. i. What are the major causes of monopoly? (04 Marks)

ii. Can it believe that the monopoly firm earn supernormal profit every time? If not why? (Marks 04)

AND

iii. What is meant by price discrimination? Graphically show the different types of price discrimination. Why this pricing policy cannot apply for other firm except monopolist?

(Marks 12)

OR

Assume that a monopolist sells its output in two sub-markets A and B. The demand curves of this sub-markets are $X_A = 12 - P_A$ and $X_B = 20 - P_B$

Total cost function is $C = 3+2X = 3 + 2\ (X_A + X_B)$