



University of Kelaniya – Faculty of Social Sciences

Academic Year 2016/2017

Bachelor of Arts (Special) Degree Second Year

First Semester Examination- August 2018

Economics/Social Statistics

ECON 31414/SOST 31434 – Intermediate Microeconomics

Answer Four (04) questions.

No. of Questions: 07

Time: 03 hours

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01. (a) How is economics considered a social science? Explain. (05 Marks)
- (b) Explain what is meant by the deductive method and inductive method. (05 Marks)
- (c) Distinguish between 'Positive economics' and 'Normative economics'. (05 Marks)
- (d) Describe why economists make assumptions in constructing economic theories. (05 Marks)
02. Suppose, a market in which two firms compete as quantity setters, and the market demand curve is given by $Q = 4000 - 40P$. Firm 1 has a constant marginal cost equal to $MC_1 = 20$ and firm 2 has a constant marginal cost equal to $MC_2 = 40$.
- (a) Find each firm's reaction function. (10 Marks)
- (b) Find the Cournot equilibrium quantities and the Cournot equilibrium price. (10 Marks)

03. (a) Explain the difference between cooperative (collusive) oligopoly models and non-cooperative (Non - collusive) oligopoly models. (04 Marks)
- (b) What is a cartel? Why it is difficult to maintain a cartel? (08 Marks)
- (c) What are the strengths and weaknesses of the kinked demand curve theory of oligopoly? (08 Marks)
04. (a) Using appropriate diagrams, discuss the pricing strategies; limit pricing, predatory pricing and off-peak pricing. (15 Marks)
- (b) What is the difference between predatory pricing and limit pricing? (05 Marks)
05. (a) Write down the equation of a utility function that corresponds to a;
- (i) Risk-neutral decision maker
- (ii) Risk-loving decision marker
- (iii) Risk-averse decision marker (06 Marks)
- (b) What are the available risk measurements? Explain how you use alternative risk measurements to determine the degree of absolute risk and relative risk. (06 Marks)
- (c) Suppose that you have a utility function given by the equation $U = \sqrt{50} W$. Consider a lottery that provides a payoff (wealth) of Rs 0 with probability 0.75 and Rs. 200 with probability 0.25.
- (i) What is the expected value of this lottery?
- (ii) What is the expected utility of this lottery? (08 Marks)

06. (a) What do you understand by the information problem? Describe using real world examples. (05 Marks)
- (b) Explain why economists are concerned with the problem of asymmetric information. (05 Marks)
- (c) What is meant by signaling model ? Discuss how market signaling is used in real world markets. (05 Marks)
- (d) Using examples, explain what is meant by 'Principle - agent Problem'. (05 Marks)

07. Write notes on the followings;

- (a) Market Concentration Ratio
- (b) Dominant Firm Model
- (c) Economic Rent and Transfer Earning
- (d) Barometric Price Leadership

(20 Marks)

