



## SECTION 1

*All questions are compulsory.*

*Total marks for Section 1 is 50 marks.*

*Recommended time for the section is 90 minutes.*

### Question 01

**1(a):** You are required to choose the most appropriate answer.

(Total 20 marks)

1.1. Economics is about the allocation of scarce resources. Which of the following is not an example of economic scarcity?

- A. If Sunimal goes to see the movie *Siri Parakumon* Saturday, he will not be able to afford an ice cream.
- B. If Jayani studies for her economics quiz this evening, she will not have time to walk her dog.
- C. If Asia Motors increases its production of luxury vehicles this year, it will have to spend more on advertising.
- D. If ABC Books increases the number of titles it carries, it will have to reallocate shelf space to accommodate the new titles.

**(2 marks)**

1.2. Which of the following would cause the Production Possibility Frontier (PPF) for an economy to shift outwards?

- (i). A reduction in the level of unemployment
  - (ii). A rise in the rate of investment
  - (iii). A fall in the price of one factor of production
  - (iv). A rise in output per worker
- A. (i) & (ii) only
  - B. (i), (ii) & (iii) only
  - C. (i), (iii) & (iv) only
  - D. (ii) & (iv) only

**(2 marks)**

1.3. Which of the following statements is not true?

- A. The basic economic problem is the same in planned and free market economies.
- B. The basic economic problem is one of choice between alternatives.
- C. Factors of production are limited in supply.
- D. Choice is necessary because of limited consumer wants.

**(2 marks)**

1.4. Which of the following represents the price elasticity of demand?

- A.  $\frac{\left(\frac{\Delta Q}{P}\right)}{\left(\frac{\Delta P}{Q}\right)}$
- B.  $\left(\frac{\Delta Q}{P}\right) + \left(\frac{\Delta P}{Q}\right)$
- C.  $\left(\frac{\Delta Q}{\Delta P}\right) \times \left(\frac{P}{Q}\right)$
- D.  $\left(\frac{\Delta Q}{P}\right) - \left(\frac{\Delta P}{Q}\right)$

**(2 marks)**

1.5. Which of the following is correct on the relationship between average product (AP) and marginal product (MP)?

- A. MP curve intersects the AP curve at the highest point of the MP curve.
- B. If AP is at a maximum, then MP is also at a maximum level.
- C. If AP exceeds MP, then AP is falling.
- D. If AP = MP, then total product is at a maximum.

**(2 marks)**

1.6. Henry Mintzberg identified twelve managerial roles grouped into three classes; interpersonal, inter-organisational and decisional.

- A. The statement is true.
- B. The statement contains one error.
- C. The statement contains two errors.
- D. The statement contains three errors.

**(2 marks)**

1.7. A manufacturing process in which components or goods are produced in groups are known as:

- A. Batch production
- B. Job production
- C. Flow production
- D. Mass production

**(2 marks)**

1.8. Select the most appropriate statement that defines “Management”.

- A. Efficient utilisation of organisational resources.
- B. Doing the right things in a right way.
- C. Increasing the level of satisfaction of an organisation’s employees.
- D. Increasing profitability of organisations.

**(2 marks)**

1.9. An organisation’s mission statement is used to:

- A. Determine the elements of its strategic plan.
- B. Develop clear objectives and targets.
- C. Enable it to regularly review progress.
- D. Determine the nature and direction of the business

**(2 marks)**

1.10. Which of the following skills is more important for first level managers to efficiently perform tasks that involve job-specific knowledge and techniques?

- A. Human skills
- B. Conceptual skills
- C. Technical skills
- D. Administrative skills

**(2 marks)**

**1(b):** You are required to write short answers to all questions with attention given to action verbs.

(Total 30 marks)

1.11. Inflation means there is a sustained increase in the general price level. The main causes of inflation are either excess aggregate demand (demand pull inflation) or supply side factors (cost push inflation).

“Demand pull inflation is often monetary in origin”.

**Required:**

**Explain** the reasons for the above statement.

(3 marks)

1.12. The degree to which quantity demanded responds to changes in the product’s own price is called the price elasticity of demand (PED). It measures the percentage change in quantity demanded of a product to a given change in the price of the product.

“The value of PED along a downward sloping straight-line demand curve is constant.”

**Required:**

**Explain** whether you agree with the above statement.

(3 marks)

1.13. Economies of scale and economies of scope are two of the most valuable concepts in economics for entrepreneurs to decide how growth can improve their bottom line.

**Required:**

**Identify** two (02) differences between economies of scale and economies of scope.

(3 marks)

1.14. An exchange rate is the current market price for which one currency can be exchanged for another. Currently, floating exchange rates are more popular than fixed exchange rates.

**Required:**

**List** three (03) advantages of floating exchange rates.

(3 marks)

- 1.15. Every decision maker, whether it is an individual or a business, has to make choices between alternatives given the fact that resources available are limited or scarce.

**Required:**

**Define** the concept of opportunity cost and **state** its relevance to economic decisions.

**(3 marks)**

- 1.16. "A role can be defined as the behaviour that management expects from a person occupying a given position or rank. He reports financial results and provides information that would help managerial decision making while safeguarding the funds of the organisation."

**Required:**

**Explain** the role of an accountant in a business as a risk management expert and **state** other roles he might also play in an organisation.

**(3 marks)**

- 1.17. Managers in an organisation can be classified as belonging to one of three levels – top, middle, and lower managers. Henry Mintzberg identified ten roles that a manager (irrespective of his level) has to perform and these were grouped under three categories.

**Required:**

**List** the ten (10) managerial roles identified by Management theorist Mintzberg by classifying them under the three main categories.

**(3 marks)**

1.18. Managers of organisations have to ensure that the resources available to them (human and non-human) are used efficiently and effectively to achieve the goals of the organisation.

**Required:**

**Discuss** the importance of managerial skills for different managers in the organisational hierarchy.

**(3 marks)**

**List** six (06) types of management information systems adopted by organizations.

**(3 marks)**

1.19. A management information system is a system that collects and processes information and provides it to managers at all levels, who use it for decision making, planning, program implementation and controlling.

1.20. Modern businesses include several items in their value offerings in order to increase customer satisfaction.

**Required:**

**List** six (06) such value offerings.

**(3 marks)**

## SECTION 2

*Three out of the four questions should be answered.*

*Total marks for Section 2 is 30 marks.*

*Recommended time for the section is 54 minutes*

### Question 02

AB (Pvt) Limited has more than 30 years of experience in the beauty care market. Currently the company is manufacturing shampoos, beauty creams and several types of face washes for ladies under different brand names. In the last management meeting, a discussion was held to consider the feasibility of diversifying AB's business into the men's beauty care market. The men's beauty care market is currently growing in the world. However, as an initiative to this proposed market entry, AB is considering to take a decision to import men's beauty care products from Country C, due to the lack of such sophisticated manufacturing facilities in Sri Lanka.

#### Required:

1. **List** the main dimensions of the general environment of this new business and **explain** the impact of two (02) of them.

**(5 marks)**

2. **Discuss** how the prevailing exchange rates and the level of inflation will have an impact on the proposal of AB (Pvt) Limited to import the men's beauty care products from Country C.

**(5 marks)**

**(Total 10 marks)**

### Question 03

A company manager believes that "given the luxury of a labour market that is open, flexible, and relatively abundant, Human Resource Management (HRM) is of little value to the company, because employees can be hired as and when the need arises."

#### Required:

1. **Define** Human Resource Management (HRM) and **state** the steps involved in HRM.

**(5 marks)**

2. **Identify** the importance of HRM to all managers.

**(5 marks)**

**(Total 10 marks)**

#### Question 04

Virtual (Pvt) Limited is a toy manufacturing company which has a highly skilled workforce. Recently it lost one of its main clients due to a failure in delivering a product on time. Further, it was observed that the decision making process in the organisation had slowed down due to many layers in the current organisational structure. Cross-functional and cross-disciplinary teamwork is not supported at Virtual (Pvt) Limited and when cross functional work is to be carried out, identity of the work gets lost half way. For example, when the first functional manager finishes working on an activity, the deliverable is thrown to the next functional manager, and so the process continues. There is no one to take the ownership and responsibility of the final outcome. In the meantime, the competitive and highly dynamic market place compels them to maintain high flexibility in human resource sharing across functions and speedy delivery of quality products in to the market place.

#### Required:

1. **Identify** and **explain** the main issue of the existing organisational structure of Virtual (Pvt) Limited. **(6 marks)**
2. **Discuss** a solution (with justification) for the issue identified in (1) above. **(4 marks)**

**(Total 10 marks)**

### Question 05

FP (Pvt) Ltd manufactures and distributes denim pants to leading retail outlets in Sri Lanka. The company has always manufactured in large batches of 1000 units per batch. However, over the past few years it has found that retailers increasingly demand smaller quantities per style, but demand more styles per order. The marketing manager of FP continues to tell the managing director (MD) that the company needs to review the current batch size as he is no longer in a position to push the retailers to buy a minimum order quantity of 1,000 units per style.

He also informed the MD that at a recent seminar he attended he heard about a new manufacturing system called 'Lean Manufacturing' where the production is more aligned to customer demand, and that they should pursue this production system instead of the existing batch manufacturing system.

#### Required:

1. **Explain** the difference between batch production and job production.  
(2 marks)
2. **Discuss** whether you agree with the marketing manager of FP and **advise** how lean manufacturing could help to overcome the challenges they currently face with batch production.

(8 marks)

(Total 10 marks)

## SECTION 3

*Compulsory question.*

*Total marks for Section 3 is 20 marks.*

*Recommended time for the section is 36 minutes.*

### Question 06

The XYZ industry is one of the manufacturing industries in Sri Lanka and it consists of several firms that are highly interdependent. As an industry it has heavy entry barriers; only two new firms entered the industry during the last few decades. Currently three firms, namely, Firm A, Firm B and Firm C, manufacturing product A, product B and product C respectively, are dominating the industry. The demand and supply functions of the three products are given below.

Product	Demand	Supply
A	$Q_d = 220 - 0.40P$	$Q_s = 4P$
B	$Q_d = 171 - 0.42P$	$Q_s = 3P$
C	$Q_d = 157 - 1.14P$	$Q_s = 2P$

The three firms, A, B, and C, expect to increase the unit price of their three products by Rs. 50, Rs. 60 and Rs. 70 respectively. Currently market equilibrium price of all three products is Rs. 50 which is the also market clearing price of the industry. Product A is marketed with only a primary package and advertised through print media whilst products B and C are advertised through both print and electronic media. The firm offering product A is expecting to introduce a completely new package to match with the market expectations which have been highlighted as important by a market survey conducted recently. In the meantime, a new firm with a new product, namely "Product D" is also planning to enter the industry in mid-2015. Further, the new firm, (Firm D with Product D), is currently in the process of gathering competitor information. In response to that, the existing firms of the industry are getting ready to react to the new entrant aggressively.

The raw material for the production of these products is available in India and some other countries in South America. However, most of the firms import raw materials from one particular Indian supplier due to the heavy transportation cost to be incurred in importing the material from South American countries. Further, there are no close substitutes for the product in the domestic market.

**Required:**

1. **Explain** the market structure of XYZ industry giving reasonable justifications.

**(3 marks)**

2. **Discuss** the competitive position of the firm offering Product A based on the Five Forces model introduced by Michael E. Porter.

**(7 marks)**

3. **Discuss** the possible impact of the proposed price increments of products A, B and C, on the total revenue and profitability of the three firms separately, depending on the possible market reactions of competitive firms.

**(10 marks)**

**(Total 20 marks)**