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SCHOOL OF ACCOUNTING AND BUSINESS
BSc. (APPLIED ACCOUNTING) GENERAL / SPECIAL DEGREE PROGRAMME

END SEMESTER EXAMINATION – JULY 2015

BEC 30325 Managerial Economics

Date	:	25th July 2015
Time	:	9.00 a.m. – 11.30 a.m.
Duration	:	Two and half (02 ½) Hours

Instructions to Candidates:

- This paper consists of three sections (A, B and C).
- Section A – Answer **ALL** questions in the sheet provided.
- Section B – Answer only **four (04)** questions
- Section C – Answer only **one (01)** question
- The total marks for the paper is 100.
- The marks for each question are shown in brackets.
- Answers should be written neatly and legibly.

Section A

Underline/ circle the most appropriate answer for the question 1 – 10.

1. As the price of a good increases, the change in the quantity demanded can be shown by
   a. shifting the demand curve leftward.
   b. shifting the demand curve rightward.
   c. moving down along the same demand curve.
   d. moving up along the same demand curve.

2. An increase in the demand for a commodity would be illustrated as a
   a. leftward shift of the demand curve.
   b. rightward shift of the demand curve.
   c. movement up along the demand curve.
   d. movement down along the demand curve.

3. To determine the total demand for all consumers, sum the quantity of each consumer demands
   a. at a given price.
   b. at all prices and then sum this amount across all consumers.
   c. both a and b will generate the same total demand.
   d. none of the above.

4. If the price of a commodity rises by 10%, and, as a result, the quantity demanded falls by 8%, the price elasticity of demand for the commodity is
   a. elastic.
   b. inelastic.
   c. unitary elastic .
   d. None of the above.

5. The total cost (TC) of producing sports shoes (Q) is given as: TC = 200 +5Q. What is the variable cost?
   a. 5Q
   b. 5
   c. 5 + (200/Q)
   d. 200

6. In the Kinked Demand Curve theory, it is assumed that:
    a. An increase in price by the firm is not followed by others
    b. An increase in price by the firm is followed by others
    c. A decrease in price by the firm is not followed by others
    d. Firms collude to fix the price

7. A normal good can be defined as one which consumers purchase more of as
    a. prices fall.
    b. prices rise.
    c. incomes fall.
    d. incomes increase.

8. Which of the following statements about the relationship between marginal cost and average cost is correct?
    a. When MC is falling, AC is falling.
    b. AC equals MC at MC’s lowest point.
    c. When MC exceeds AC, AC must be rising.
    d. When AC exceeds MC, MC must be rising.

9. If a firm triples all inputs, and output triples as well, the firm is subject to
    a. constant returns to scale.
    b. increasing returns to scale.
    c. economies of scale.
    d. both (b) and (c).

10. An isocost line identifies
    a. the least costly combination of inputs needed to produce a given level of output.
    b. the relative prices of inputs.
    c. the technological relationships among inputs.
    d. the rate at which one input can be substituted for another in the production process.

(Total 20 Marks)

Section B

Answer only **<u>four (04)</u>** questions

<u>Question No. 01</u>

If a firm's total cost function is given by the equation: $TC = 4000 + 5Q + 10Q^2$ write an expression for each of the following cost concepts:

i. a. Total Fixed Cost

b. Average Fixed Cost

c. Total Variable Cost

d. Average Variable Cost

e. Average Total Cost

f. Marginal Cost

(12 Marks)

ii. Determine the quantity that minimizes average total cost

(03 Marks)

(Total 15 Marks)

<u>Question No. 02</u>

2. The following is the estimated demand function for a commodity X of a firm.

$$Demand\ Q_X = 49026.80 + 383.55 AdEX - 630.13 \Pr ice_X$$

(9524.56) (68.488) (88.11)

$R^2 = 0.87$

Critical Value at 5% significance level = 2.306

where ***AdEX*** is the advertising expenditure and ***price$_x$*** is the price of the product. Numbers in the parentheses are standard errors of the estimates

i. Interpret the parameters in the demand function

(06 Marks)

ii. Forecast the firm's demand for the next period if advertising expenditure is Rs.10,000 and price of the product is Rs 100.

(03 Marks)

iii. Find forecasted advertising elasticity and price elasticity of demand

(03 Marks)

iv. What is your interpretation on R^2 value?

(03 Marks)

(Total 15 Marks)

Question No. 03

i. How can a least-cost combination be found with the help of iso-quant and iso-cost curves?.

(07 Marks)

ii. Drawing diagrams where necessary, write short notes on:

a. Law of diminishing marginal returns.

b. Cobb-Douglas production function.

c. Economies of scale.

d. Expansion path.

(08 Marks)

(Total 15 Marks)

Question No. 04

i. Explain the rationale behind the followings:

a. "U" shaped long- run average cost curve

b. "U" shaped short- run average cost curve

(06 Marks)

ii. What are the characteristics of perfect competition?

(04 Marks)

iii. Explain the equilibrium of a competitive firm incurring losses.

(05 Marks)

(Total 15 Marks)

Question No. 05

Answer to the following questions using the graph provided below.

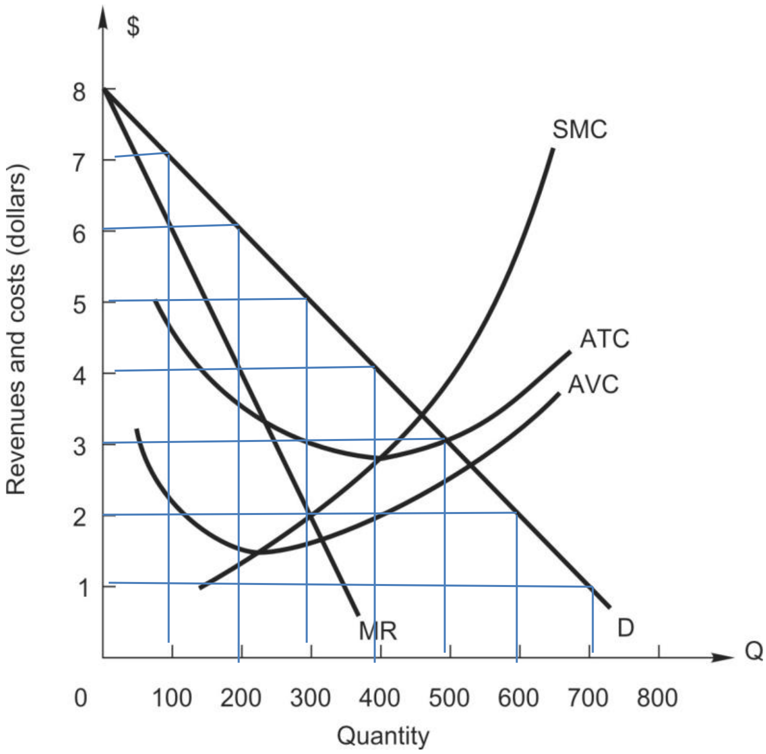
i. The monopolist maximizes profit by producing __________units of output.

ii. The monopolist will sell its output at a price of $__________ per unit.

iii. The monopolist earns a profit (loss) of $__________.

iv. Construct a new demand and marginal revenue curve such that the monopolist earns a loss in the short run but does not shut down.

v. Construct a new demand curve to show the shutting down situation of the firm.



(Total 15 Marks)

Section C

. Answer **one (01)** question

Question No. 01

"Managerial Economics is often used to help business students integrate the knowledge of economic theory with business practice". Do you agree with this statement? Explain how this integration is achieved.

(Total 20 Marks)

Question No. 02

i. Explain the relation between scarcity and opportunity cost. How do they influence business decisions?

(10 Marks)

ii. Define price elasticity of demand and distinguish its various types. Discuss the role of price elasticity of demand in managerial decisions.

(10 Marks)

(Total 20 Marks)