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No of Questions - 07

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

YEAR I SEMESTER I (Intake V – Group B)

YEAR II SEMESTER I (Intake II/III – Group B)

END SEMESTER EXAMINATION – APRIL 2016

BEC 10125 Microeconomics

BEC 20125 Microeconomics

Date : 8th April 2016
Time : 5.30 p.m. - 8.00 p.m.
Duration : Two and a half (02 1/2) hours

Instructions to Candidates:

- Paper consists of three Parts (I, II, and III)
- Part I – Answer **ALL** questions in the separate sheet provided.
Part II – Answer **Three (03)** questions out of four.
Part III – Answer **One (01)** question out of two.
- The total marks for the paper is 100.
- The marks for each question are shown in brackets.
- Answers should be written neatly and legibly.

PART I

Answer ALL questions

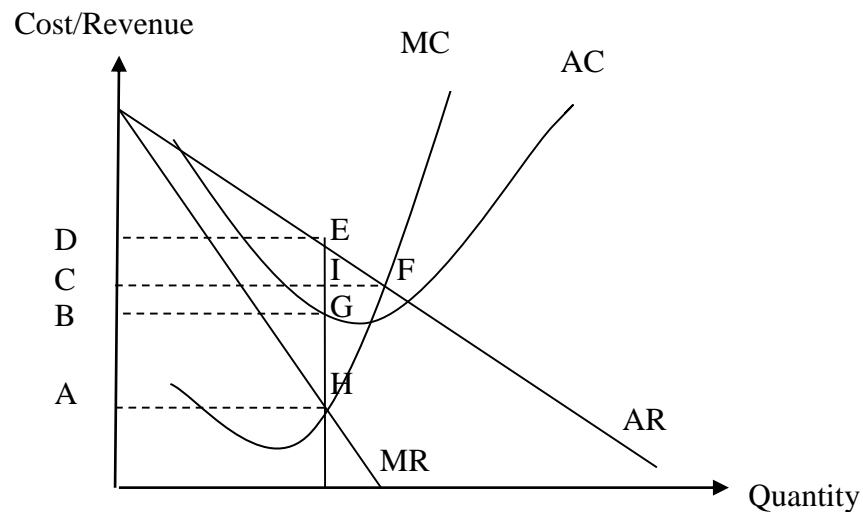
1. Individuals face the problem of choice;
 - a. Due to unlimited wants to be satisfied by limited resources
 - b. Due to scarcity of resources and the resources are capable of being put to alternative uses.
 - c. Since when one want is satisfied, another want emerges demanding satisfaction
 - d. As a result of 'demonstration effect' of individuals

2. An individual decides to turn down a job offer which earns him Rs 10,000/= per month and to start his own business by investing Rs 150,000/= through a bank loan at 2% interest rate. Total sales during the first month were Rs 50,000/= and the cost of raw materials and labour were Rs 5,000/= and 7,000/= respectively. The difference between accounting and economic profit of this individual is;
 - a. Rs 35,000
 - b. Rs 25,000
 - c. Rs 10,000
 - d. Zero

3. Economists assume that consumers act rationally. This means;
 - a. The consumer maximises his marginal utility attainable with any given amount of income
 - b. The consumer maximises his total utility attainable with any given amount of income
 - c. The consumer maximises his marginal utility attainable with a limited income
 - d. The consumer maximises his total utility attainable with a limited income

4. When compared with other market structures, the **distinguishing** feature of an oligopoly is;
 - a. Product differentiation
 - b. Price competition
 - c. Mutual interdependence among firms
 - d. Large number of firms

5. The following figure shows the short run equilibrium for a monopolistic firm.



Which of the following areas represent supernormal profits earned by the firm?

- a. A B G H
 - b. B D E G
 - c. B C I G
 - d. A D E H
-
6. A perfectly competitive firm will exit the industry in the short run only if;
 - a. Total revenue is less than the total cost of production
 - b. Total revenue is less than the total fixed cost of production
 - c. Total revenue is less than the total variable cost of production
 - d. Average revenue is less than the average cost of production

7. Income elasticity of demand means;
- The responsiveness of quantity demanded to a change in price
 - The responsiveness of quantity demanded to a change in income
 - The responsiveness of quantity supplied to a change in income
 - The responsiveness of quantity demanded to a change in price of another good.
8. The demand and supply equations for a good are given as follows;
- $$Q_d = 2200 - 200P$$
- $$Q_s = -200 + 200P$$
- If there is an increase in demand it will result in;
- An increase in both the equilibrium price and quantity
 - An increase in the equilibrium price but not the quantity
 - An increase in the equilibrium quantity but not the price
 - A decrease in both the equilibrium price and quantity
9. As long as the principle of diminishing marginal utility is operating, any increased consumption of a good
- lowers total utility.
 - produces negative total utility.
 - lowers marginal utility and, therefore, total utility.
 - lowers marginal utility, but may raise total utility.
10. The concept of 'short run' as used in the theory of production and costs in Economics refers to
- A period not exceeding one year
 - A period at least one factor of production remains fixed while others vary
 - A period when total costs remain unchanged
 - A period when average costs do not vary.

(Total 20 Marks)

PART II

Answer **only THREE (03)** questions

Question No. 01

1. Distinguish between Microeconomics and Macroeconomics using examples.
(04 Marks)
 2. Explain the relationship between scarcity, choice and opportunity cost.
(06 Marks)
 3. Suppose a student studying for his end-semester examinations has limited time of three hours. He has three lessons of Economics and six lessons of Management to study.
 - (i) Draw a Production Possibility Curve (PPC) to represent the above situation (Assume constant opportunity cost)
(03 Marks)
 - (ii) Find the opportunity cost of studying an Economic lesson by using the PPC drawn in 3 (i) above.
(02 Marks)
 4. Briefly discuss the importance of studying 'Economics' as a way of thinking.
(05 Marks)
- (Total 20 Marks)**

Question No. 02

1. Briefly explain the main four (04) determinants of demand.

(06 Marks)

2. Explain income and substitution effect in relation to a fall in price of a normal good.

(04 Marks)

3. Comment on the practical importance of price elasticity of demand for firm's pricing decision.

(04 Marks)

4. The market demand and supply of a commodity of a hypothetical economy are described by the following equations;

$$Q_d = 100 - 10P$$

$$Q_s = -20 + 20P$$

Calculate;

(i) Producer surplus

(ii) Consumer surplus

(06 Marks)

(Total 20 Marks)

Question No. 03

The following table shows how the total output varies for a given level of input for XY Limited

Number of machines employed	Number of workers employed	Total output
10	0	0
10	1	10
10	2	30
10	3	60
10	4	80
10	5	95
10	6	108
10	7	112
10	8	112
10	9	108
10	10	100

Based on the above information;

1. Is XY Limited operating under short run or long run production? Justify your answer.
(02 Marks)
2. Draw the average product (AP_L) and marginal product (MP_L) of labour curves.
(06 Marks)
3. Using the diagram drawn in question no. 02 above;
 - a. Explain the relationship between average product and marginal product.
 - b. Explain the law of diminishing returns.(06 Marks)
4. Illustrate the three (03) types of 'Economies of Scale' that could be experienced by a firm in the long run.
(06 Marks)

(Total 20 Marks)

Question No. 04

1. Explain the difference between accountant's profit and economist's profit.
(04 Marks)
 2. Briefly explain four (04) features of monopolistic competition.
(04 Marks)
 3. Compare and contrast 'Monopoly' and 'Oligopoly' market structures.
(06 Marks)
 4. 'A perfectly competitive firm achieves economic efficiency in the long run'
Comment on this statement using a diagram.
(06 Marks)
- (Total 20 Marks)**

PART III

Answer **only ONE (01)** question

Question No. 01

Explain the equilibrium of a monopoly firm using an appropriate diagram and show that the monopoly firm can earn supernormal profit in both short run and long run.
(20 Marks)

Question No. 02

Explain the reasons for the 'U' shape of the cost curves of firms both in the short run and long run.
(20 Marks)