THE INSTITUTE OF CHARTERED ACCOUNTANTS OF SRI LANKA

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

END SEMESTER EXAMINATION – JANUARY 2016

BEC 30325 Managerial Economics

Date	:	17th January 2016
Time	:	1.00 p.m.– 3.30 p.m.
Duration	:	Two and a 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. Which of the following statements does not explain price elasticity of demand?
   a. It measures the responsiveness or sensitivity of consumers to changes in the price of a good
   b. If the price change is relatively small, a point elasticity calculation is suitable
   c. When the demand is linear the parameter ‘b’ is equal to price elasticity of demand
   d. Method of measuring point elasticity depends on whether the demand is linear or curvilinear

2. For a linear demand function $Q = a + bP + cM + dP_R$, the income elasticity is;
   (P – Price, M – Income, P_R – Price of related goods)
   a. c
   b. $c\left(\frac{M}{Q}\right)$
   c. $c\left(\frac{Q}{M}\right)$
   d. $-c$

3. A representative sample,
   a. eliminates the problem of response bias
   b. reflects the characteristics of the population.
   c. is frequently a random sample.
   d. both (b) and (c)

4. Economic efficiency in production is,
   a. production of the maximum level of output that can be obtained from a given combination of inputs
   b. production of an output which is identical to the estimated demand
   c. production of an output with an efficient group of workers
   d. production of a given amount of output at the lowest possible cost

5. The addition to total revenue from using an additional unit of the variable factor is known as,
    a. Marginal revenue
    b. Marginal product
    c. Marginal revenue product
    d. Variable revenue product

6. In the short-run, shut down price of a firm in a perfectly competitive market is,
    a. the average variable cost
    b. short-run marginal cost
    c. average total cost
    d. minimum marginal cost

7. Which of the following expressions explains, the firm incurs a loss, but continues to produce in short run?
    a. $TR < TVC > FC$
    b. $ATC > P > AVC$
    c. $AVC > P < AFC$
    d. $TC > P > TVC$

8. Actions taken by firms to plan and react to competition from rival firms is known as;
    a. Strategic behaviour
    b. Dominant strategy
    c. Non-cooperative decisions
    d. Facilitating practices

9. Customers who buy an item today are entitled to receive any ‘sale price’ the firm might offer in some stipulated future period is known as;
    a. Price matching
    b. Public pricing
    c. Price discrimination
    d. Price guarantees

10. Which of the following is not a condition necessary to practice profitable price discrimination?
    a. Firm must possess some degree of market power
    b. A cost-effective means of preventing consumer arbitrage must be implemented
    c. Short-run marginal cost should be equal to average variable cost
    d. Price elasticities must differ between individual buyers or groups of buyers

(Total 20 Marks)

Section B

Answer only **four (04)** questions.

Question No. 01

A firm has the following production function,

$$Q = -L^3 + 15L^2 + 10L$$

where, Q is output per day and L is labour employed per day.

i. Which law of production is revealed by this production function? Briefly explain.

(03 Marks)

ii. When does the law of diminishing returns take effect?

(03 Marks)

iii. At what level of labour employment does the total production begin to decline?

(04 Marks)

iv. How does the manager of this firm determine the optimal use of variable input? Explain your answer.

(05 Marks)

(Total 15 Marks)

Question No. 02

i. Explain the difference between short-run and long-run competitive equilibrium of a firm in perfect competition.

(06 Marks)

ii. The demand function for a firm with market power is estimated to be;

$$Q = 122{,}000 - 500P + 4M + 10{,}000P_R$$

where, Q is output, P is price per unit, M is income, and P_R the price of a related good. The estimated values of M and P_R are Rs. 32,000 and Rs. 4, respectively in 2016.

For 2016, find the following functions:

a. Forecasted demand function

b. Inverse demand function

c. Marginal revenue function

(09 Marks)

(Total 15 Marks)

Question No. 03

i. A manager of a firm which enjoys substantial degree of market power has estimated the following demand.

$$Q = 100 - 0.5P$$

Suppose that firm's total cost function in the short-run is also given as,

$$TC = 1562.50 + 5Q - Q^2 + 0.05Q^3$$

Calculate short-run equilibrium output level, price and the total profit.

(09 Marks)

ii. Assume a downward sloping linear demand curve faced by a firm with a market power. Explain the behaviour of total revenue and marginal revenue curves using graphs.

(06 Marks)

(Total 15 Marks)

Question No. 04

i. How do managerial decisions in oligopoly market differ from other market structures?

(05 Marks)

ii. Why do cooperative decisions are better than non-cooperative decisions in oligopoly market?

(05 Marks)

iii. How do existing firms in an oligopoly market create entry barriers against new and potential entrants?

(05 Marks)

(Total 15 Marks)

Question No. 05

i. What are the outcomes and consequences of first-degree price discrimination? Graphically explain.

(04 Marks)

ii. What is ‘two-part pricing’? When and how can this pricing technique be implemented?

(05 Marks)

iii. What are the practical problems associated with ‘cost-plus pricing’? Graphically explain.

(06 Marks)

(Total 15 Marks)

Section C

Answer only **one (01)** question.

Question No. 01

"Effectiveness of managerial decisions of a business organization partly depends on manager's knowledge and consideration of various macroeconomic variables and its behaviour."

Do you agree with this statement? Justify your answer.

(Total 20 Marks)

Question No. 02

Distinguish the difference between demand-side and supply-side economic policies of a government.

Explain your answer with relevant economic policies, their objectives and its business impact.

(Total 20 Marks)