SLIATE

SRI LANKA INSTITUTE OF ADVANCED TECHNOLOGICAL EDUCATION
(Established in the Ministry of Higher Education, vide in Act No. 29 of 1995)

Higher National Diploma in Business Administration
Higher National Diploma in Business Finance
First Year, First Semester Examination – 2017
BA/BF 1113 - Business Economics

Instructions for Candidates:	No. of questions : 06
Answer <u>any five</u> questions.	No. of pages : 03
	Time allowed : **03 hours**

Question 01

(i)   What is Business Economics and briefly discuss the scope of Business Economics?

(4 marks)

(ii)   What are the basic problems faced in economics? Explain briefly.   (4 marks)

(iii)   With the help of a suitable diagram explain Production Possibility Curve.   (4 marks)

(iv)   Define "Law of Demand" and name causes affecting the law of demand.   (4 marks)

(v)   List five importance of price elasticity of demand.   (4 marks)

(Total 20 marks)

Question 02

(i)   Explain income elasticity of demand and how it is measured?   (4 marks)

(ii)   You are given the following information regarding free market demand and supply functions.
QD = 500-20P (demand function)   QS = -150 + 30P (supply Function)

   a) Compute equilibrium price and quantity for the above good.   (4 marks)

   b) Suppose the control price as Rs.15, compute the new market price whilst no other complement actions with the price controlling.   (4 marks)

   c) What are the effects of above price control?   (2 marks)

   d) If the government has decided to impose a per unit tax of Rs.5/- on this good, compute government tax income.   (6 marks)

(Total 20 marks)

Question 03

(i)   Short run average cost curves take "U" shape. Explain the reason for it.   (4 marks)

(ii) a)   What is meant by the "Returns to Scale"?   (2 marks)

   b)   With the help of a graph, explain briefly the stages of returns to scale.   (4 marks)

(iii)   Total cost function for a specific good is given as follows;
$TC = 6000 + 3500Q - 300Q^2 + 10Q^3$
Calculate the TFC, AFC, TVC, AVC, ATC and MC at each output level.   (6 marks)

(iv) The objective of 'X' company is to minimize the average variable cost. Total variable cost function is, TC = 5000 - $10Q^4$ + 20 Q^3 + 200 Q^2 + 1000Q, Find AVC minimizing output level. (4 marks)

(Total 20 marks)

Question 04

(i) With the help of a graph, explain briefly short run equilibrium of monopoly. (5 marks)

(ii) Discuss the features of Monopolistic Competition market and Oligopoly market. (4 marks)

(iii) Explain why do you agree or disagree with the following statements.

a) The average revenue and marginal revenue curves of perfect competition market is the same as monopoly market.

b) Firms are price taker in competition market and price maker in monopoly. (4 marks)

(iv) The directors of Victoria Group of Company estimates that total demand (P) from the sale of firm's product is given by the equation,

$P = 800 – 4Q$

The total cost equation is estimated to be

$TC = 6000 + 120Q + Q^2$

What is the profit maximizing price and output rate? What is the amount of economic profit? (7 marks)

(Total 20 marks)

Question 05

(i) Define the term of money? (2 marks)

(ii) What is meant by "Money Supply" and explain the reasons for why people are demanding money? (8 marks)

(iii) State what is meant by the term inflation and deflation. (4 marks)

(iv) The quantities of Bicycles and Computers which could be produced by India and Pakistan with equal quantities of inputs are given below.

	Output per unit of resource	
	India	Pakistan
Bicycles	20	8
Computers	30	16

If international trade can occur between the above two countries, on the basis of absolute advantage and comparative advantage, explain the possible trade direction. (6 marks)

(Total 20 marks)

Question 06

(i) With the help of a diagram, explain four sector model for circular flow of money. (4 marks)

(ii) Describe what is meant by the "economic cycle''. (4 marks)

(iii) Distinguish between structural unemployment and Frictional unemployment. (4 marks)

(iv) State four (04) effects of unemployment. (4 marks)

(v) List four (04) advantages of national income accounts. (4 marks)

(Total 20 marks)

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