



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 Management
First Year - Second Semester Examination - 2016

MAN 1202- Business Economics

Instructions for candidates:
Answer any **five** questions **only**.
Each question carries **equal** marks.

No. of questions : 06
No. of pages : 03
Time : **Three (03) hours**

Q1.

- I. What is the main difference between Economics and Business Economics? **(3 Marks)**
 - II. Describe what is meant by the 'economic problem'. **(3 Marks)**
 - III. Briefly describe how different economic system is organized to find solutions to the fundamental economic problems? **(4 Marks)**
 - IV. Define "law of supply" and change in quantity supplied? **(5 Marks)**
 - V. List five effects of fixing maximum price (below equilibrium price)? **(5 Marks)**
- (Total 20 Marks)**

Q2.

- I. State and explain two factors that will determine the price elasticity of demand for a product. **(3 Marks)**
 - II. Define the term "consumer surplus" and using a diagram, explain what effect a rise in price will have on consumer surplus. **(3 Marks)**
 - III. Explain what is mean by price elasticity of demand and show how it is measured? **(3 Marks)**
 - IV. Regarding a free market, you are given the following demand and supply functions.
 $QD = 2250 - 39P$ (demand function) $QS = -900 + 36P$ (supply Function)
 - a) Compute equilibrium price and quantity for the above good. **(2 Marks)**
 - b) Find out the consumers' surplus in above market equilibrium? **(2 Marks)**
 - c) Suppose if government fix a control price of Rs.15, discuss the impact **(3 Marks)**
 - d) If the government has decided to impose a per unit tax of Rs.8/- on this good, derive, New equilibrium price and quantity? **(4 Marks)**
- (Total 20 Marks)**

Q3.

- I. Short run average cost curves take “U” shape. Explain the reason for it. **(04 marks)**
- II. a) What is meant by the “Returns to Scale”? **(02 marks)**
b) With the help of a graph, explain briefly the stages of returns to scale. **(04 marks)**
- III. The following table shows the total cost at different levels of output of product x:

Production units of “x”	Total Cost (Rs.)
0	30
1	60
2	80
3	96
4	120
5	160
6	216
7	280
8	368

- Calculate the TFC, AVC, ATC and MC **(06 Marks)**
- IV. Using graph explain the three stages of the production curves (TP,AP,MP) **(04 Marks)**

(Total 20 Marks)

Q4.

- I. With help of a graph, explain briefly short run equilibrium of monopoly. **(3 Marks)**
- II. What does price discrimination mean? **(3 Marks)**
- III. List Five (05) differences between perfect competition and oligopoly market. **(04 Marks)**
- IV. What is the difference between normal and super normal profit in the perfect competition market. **(04 Marks)**
- V. The directors of Loadstar Group of Company estimates that total demand (P) from the sale of firm’s product is given by the equation,

$$P = 600 - Q$$

The total cost equation is estimated to be

$$TC = 10000 + 120Q + Q^2$$

What is the profit maximizing price and output rate? What is the amount of economic profit?

(6 Marks)

(Total 20 Marks)

Q5.

- i) What are the functions of money? **(02 Marks)**
- ii) State what is meant by the term inflation and show how it may be measured. **(04 Marks)**
- iii) State four (04) effects of a rise in the general price level of a country. **(04 Marks)**
- iv) What is meant by “Money Supply” and explain the reasons for why people are demanding money? **(05 Marks)**
- v) State five (05) consequences to a country like Sri Lanka with the rise in crude oil prices in the international market. **(05 marks)**

(Total 20 Marks)

Q6

- I. Draw the circular flow of national income for three sector economy. **(04 Marks)**
- II. Describe what is meant by the “economic cycle”. **(04 Marks)**
- III. Distinguish between short and long run economic growth. **(04 Marks)**
- IV. State four (04) measures that can be implemented to achieve Economic Growth of a country. **(04 Marks)**
- V. List four (04) advantages of national income accounts. **(04 Marks)**

(Total 20 Marks)