

UNIVERSITY OF COLOMBO- SRI LANKA
FACULTY OF ARTS
THIRD YEAR EXAMINATION IN ARTS (ECONOMICS) 2018
ECN 3273-INDUSTRIAL ECONOMICS AND POLICY

Time Allowed: Two (02) hours

Answer Four (04) Questions Only

All questions carry equal marks

1. (a) Explain the import-substitution industrial policy and the Export-oriented industrial policy. (10 marks)
(b) "In terms of industrial policy, Sri Lanka is an utter failure." Critically examine the above statement. (15 marks)

2. "The theory of Second Best provides a rationale for many different types of protections in an economy."
(a) Define the theory of the second best (08 marks)
(b) "An appropriate industrial policy can act to raise economic efficiency and improve national welfare. This provides an economic rationale for government intervention in the market". Critically evaluate the above statement. (17 marks)

3. Select any one of the following countries in your choice and write a short note on its industrial policy. What can Sri Lanka learn from its experience? (25 marks)
(a) Singapore
(b) Malaysia
(c) China
(d) Japan
(e) South Korea

4. "When an externality exists, the prices in a market do not reflect the true marginal costs and marginal benefits associated with the goods and services traded in the market"
(a) Define externalities with suitable examples. (05 marks)
(b) Assume that an economist provides you with the following models: $P = 80 - 2Q$ (inverse demand), $MPC = 0.5Q$ (Marginal Private Cost), and $MEC = 1.5Q$ (Marginal Externality Cost). Find (i) the social optimum, (ii) the unregulated competition results, and (iii) the unregulated monopoly results. (12 marks)
(c) What policy strategies would you like to propose to the social optimum results? (08 marks)

5. "The only case in which the neoclassical orthodoxy allows for government intervention is that of market failure. However, some neoclassicists argue that government failures are worse than market failures". Critically examine the above statement. (25 marks)

6. (i) Write a short essay on Sri Lankan industrial policy after economic liberalization (1977). (13 points)
- (ii) Identify key weaknesses and shortcomings of the Sri Lanka's industrial policy after 2005. (12 points)
7. Briefly discuss any five (05) of the following concepts (25 marks)
- i. Policies to develop SMEs
 - ii. Asymmetric information and government intervention
 - iii. Foreign Direct Investment (FDI)
 - iv. Public goods
 - v. Flying gees industrial theory
 - vi. Natural monopoly and regulation
 - vii. Systemic failure and capability failure
 - viii. Principles of industrial policy
 - ix. Economic efficiency and industrial policy
