

**UNIVERSITY OF COLOMBO**  
**FACULTY OF ARTS**  
**Second Year General/ BED Examination in Arts (Economics) -2016/2017**  
**(End of First Semester)**

**ECN 2116 – Intermediate Microeconomics**

**(Time Allowed: 02 Hours)**

Answer any four (04) Questions

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- (1). (a). Distinguish between Utility and satisfaction. (04 marks)
- (b). What is law of demand? Why does a demand curve slope downward? Explain this based on the Marshallian Utility analysis. (09 marks)
- (c). Explain the *Law of Diminishing Marginal Utility* using an example. How does a consumer attain the equilibrium in the case of two or more than two commodities? Explain this using the Law of equi-marginal utility. (12 marks)
- (2). (a). Explain the 'necessary conditions' and sufficient conditions' of consumer equilibrium in indifference curve analysis. (04 marks)
- (b). How do you derive the demand curve for a commodity using the indifferent curve analysis? Explain using a diagram. (08 marks)
- (c). Using the Slutskian method divide the price effect into income and substitution effects. (13 marks)
- (3). (a). "A Giffen good must be an inferior good, but an inferior good need not to be a Giffen good." Explain this statement taking into account the income and substitution effects of a price change. (07 marks)
- (b). Draw and explain briefly the shape of the indifference curve in the case of (i) perfect substitute and, (ii) complementary goods. (05 marks)
- (c). Using the Equivalent Variation Method, divide the price effect in income and substitution effects for an inferior good. Show this separation in a diagram. (13 marks)
- (4). (a). Explain the Law of Diminishing Marginal Returns. What are the three stages of production? Why does a rational producer decide his optimal level of production in the second stage? Give reasons for your answer. (10 marks)

(b). Fill the blanks of following table.

Unit of Labor	Total Product (TP)	Marginal Product (MP)	Average Product (AP)
1	480		
2	504		
3	504		
4	495		
5	470		

(07 marks)

(c). Show the 'increasing', 'constant' and 'decreasing' returns to scale with the help of an Iso-quant diagram. Suppose that the production function is  $q = f(K,L) = AK^aL^b$   $A, a, b > 0$ . Explain the three types of returns to scale using this function.

(08 marks)

(5). (a). Distinguish between the cost in short run and cost in long run. Explain the relationship between the short run average cost curve and long run average cost curve.

(05 marks)

(b). Fill the blanks of following table.

Q	TFC	TVC	TC	AFC	AVC	ATC	MC
0	60	0		-	-	-	-
1	60	20					
2	60	30			15		
3	60	45					15
4	60	80					
5	60	135		12		39	

(05 marks)

(c). Prove the following axiom using the theory of cost.

$$AVC = W \frac{1}{AP}$$

(08 marks)

(d). Economies of scale occur over the range of the long-run cost function which corresponds to increasing returns to scale of the production function. What are the sources of economies of scale?

(07 marks)

(6). (a). What are the necessary conditions for a perfect competition? Briefly explain.

(04 marks)

(b). Explain the short run and long run equilibrium of a firm under perfect competition using diagrams.

(08 marks)

(c). Distinguish between the Break-even price and Shut- down price of a firm. Why doesn't a competitive firm leave the industry in the short-run even the total revenue is less than the total cost?

(05 marks)

(d). Compare a perfect competitive firm with a monopolistic firm in relation to the consumer's welfare using suitable diagram/s.

(08 marks)

(7). (a). Using few practical examples in Sri Lanka, examine the characteristics of a monopolistic competitive market structure.

(07 marks)

(b). Explain the long run equilibriums of a monopolistic competitive firm.

(05 marks)

(c). What is meant by price discrimination in monopoly? Distinguish between the 'first degree' price discrimination and 'second degree' price discrimination in monopoly.

(06 marks)

(d). "Price leadership can be a characteristic of an oligopolistic market structure". Explain this statement. Briefly state the advantages of a 'price leadership' of the oligopoly.

(07 marks)

(8). Write Short notes on any **two (02)** of the following

(a). The law of demand and the theory of Revealed Preference.

(b). Shape of the Iso-quant and Marginal Rate of Technical Substitution (MRTS)

(c). Long Run Average Cost Curve (Envelope Curve) and plant size of a firm

(d). Linear production function and constant returns to scale

(e). Advantages and disadvantages of Monopoly

(12.5 marks for each)

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