

UNIVERSITY OF COLOMBO, SRI LANKA

FACULTY OF GRADUATE STUDIES

Post Graduate Diploma in Labour Relations and Human Resources Management Examination 2018

(Semester I)

PG Dip (LRHRmgt) - 5101 – Economics for Managers

Time Allowed: Three (03) Hours

Answer Any Five (05) Questions

1. i. “Both Microeconomics and Macroeconomics theories and concepts basically are coming under the scope of managerial economics”
- a. Compare and contrast Microeconomics and Macroeconomics. (06 Marks)
- b. Briefly explain how Microeconomics can apply to operational issues in managing a business firm. (08 Marks)
- ii. Compare and contrast concepts of profit maximizing and wealth maximizing. (06 Marks)
- (Total 20 marks)

2. i. Graphically explain the impact of following events on market price and quantity of coconut oil.

Event I : Price of one liter of vegetable oil increased in the market.

Event II : Income of consumers who consumed coconut oil increased. Now coconut oil is considered as inferior to vegetable oil. (08 Marks)

- ii. a. Define the cross elasticity of demand and calculate the coefficient of cross elasticity for Train fare, using the information given in table.

	Before		After	
	Price	Quantity	Price	Quantity
Bus fare	80	50	120	30
Train fare	40	40	40	50

- b. Identify the nature of the relationship between two products. Justify your answer. (06 Marks)
- (02 Marks)
- iii. List determinants of supply for fresh milk. (04 Marks)

(Total 20 marks)

3. i. The demand and supply for Eggs per week are estimated as $Q_d = 8000 - 100p$ and $Q_s = -4000 + 200p$ respectively. Price of Eggs is denoted in Sri Lankan rupees.

a. Find the equilibrium price and quantity.

(05 Marks)

b. Define the price elasticity of demand and calculate it for the equilibrium price. (Assume price of the product is moving upward from the equilibrium).

(07 Marks)

ii. a. What do you mean by subsidy?

(03 Marks)

b. Graphically illustrate the direction of price change in the paddy market with the introduction of a subsidy to paddy farmers.

(05 Marks)

(Total 20 marks)

4. i. a. What factors affect supply of labor?

(06 Marks)

b. What would happen to supply of labor, when the income effect dominates over substitution effect.

(04 Marks)

ii. a. "Decision to employ workers depends on cost and benefit of doing so". Do you agree with this statement? Justify your answer.

(05 Marks)

b. "Demand for labor is derive demand" Do you agree with this statement? Justify your answer.

(05 Marks)

(Total 20 marks)

5. i. Explain the difference between 'technical efficiency' and 'economic efficiency'. Why do managers of firms in competitive markets focus more on economic efficiency? Explain.

(06 Marks)

ii. Explain the short-run and long-run production functions of a firm. Identify the nature of cost behaviour in both short-run and long-run.

(06 Marks)

iii. Graphically explain the three stages of production of a firm in the short-run. Identify the managerial implications of each stage.

(08 Marks)

(Total 20 marks)

6. i. What do managers expect by estimating demand? Explain.

(05 Marks)

ii. How do you select the best demand forecasting model? Explain with selection criteria.

(05 Marks)

- iii. A study on the demand of Product X in the market resulted in the following estimation. The estimation is based on quarterly data from the 2015 (Q4) to 2018 (Q3).

$$Q_X = 30.25 - 3.5 P_X + 1.75 P_R + 4.6 M$$

P-value	(0.562)	(0.009)	(0.0418)	(0.0005)
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Q_X denotes the quantity demanded from product X during a quarter, P_X is the average price of X during a quarter, P_R is the price of a related competitive product during a quarter, M is the average income of consumers during a quarter.

The R^2 of the equation is 0.789.

- a. Comment on the significance of the estimated parameters and the demand equation for product X at 5% level of significance.
- b. Explain the nature of Product X in accordance with the above estimation results.

(10 Marks)

(Total 20 marks)

7. i. What do you mean by 'conduct' and 'performance' of a firm in the market? Explain.

(05 Marks)
- ii. What do you mean by 'market power' of a firm? Explain the nature of demand faced by a firm at different degrees of market power.

(05 Marks)
- iii. Identify different characteristics of firms in different market structures.

(05 Marks)
- iv. What are the decisions a firm in perfect competition has to make in the short-run? Explain with decision criteria.

(05 Marks)

(Total 20 marks)
