

UNIVERSITY OF COLOMBO
FACULTY OF ARTS

Second Year Examination in Arts/ BED (Economics) - 2017/2018
(End of First Semester)

ECN 2116 – Intermediate Microeconomics

(Time Allowed: 02 Hours)

Answer any four (04) Questions

- (1). (a). “Utility is subjective and it is different from satisfaction.” Briefly explain this statement. (06 marks)
- (b). Using the Marginal Utility Analysis explain the Law of Demand. (09 marks)
- (c). Discuss the significance of the assumption of constancy of marginal utility of money in the Marshallian Utility Approach. Can the Law of Demand be proven without the above assumption? Explain. (10 marks)
- (2). (a). What are the properties of Indifference Curves? Briefly Explain. (06 marks)
- (b). Derive a demand curve for a commodity using the Hicksian method? (07 marks)
- (c). Distinguish between Hicks and Slutskian methods of separating the income and substitution effects of a price change. (12 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 using the concepts of price effect, substitution effect and income effect. (08 marks)
- (b). Using a diagram divide the price effect of an inferior good into substitution and income effects using Equivalent Variation in Income method. (12 marks)
- (c). Explain the law of demand using the theory of Revealed Preference. (05 marks)
- (4). (a). “The inevitability of decreasing marginal returns is captured by the most important economic principle in short-run production analysis”. Explain this statement. (05 marks)
- (b). What are the three stages of production in the short run? Does a rational producer operate only in the second stage? Give reasons for your answer. (12 marks)

- (c). Explain the 'increasing', 'constant' and 'decreasing' returns to scale with the help of an Isoquants diagram. Examine the factors that cause decreasing returns to scale.

(08 marks)

- (5). (a). Distinguish between 'Sunk Cost' and 'Opportunity Cost' in the cost analysis.

(05 marks)

- (b). Consider the total cost function and the total revenue function of a firm as given below.

$$TR = 25Q$$

$$TC = 100 + 20Q + 0.025Q^2$$

- i) What is this firm's total profit equation?
- ii) What is the firm's marginal revenue equation?
- iii) What is the firm's marginal cost equation?
- iv) At what level of output is total profit maximized?
- v) How much profit is earned by this firm?

(2*5=10 Marks)

- (c). Consider following cost situation of a competitive firm. Fill in the MC, TR, TC and Profit columns of the table

Output (Q)	TFC	TVC	MC	MR	TR	TC	Profit π
0	Rs. 5	Rs. 0		Rs. 5			
1	Rs. 5	Rs. 3		Rs. 5			
2	Rs. 5	Rs. 5		Rs. 5			
3	Rs. 5	Rs. 9		Rs. 5			
4	Rs. 5	Rs. 16		Rs. 5			
5	Rs. 5	Rs. 25		Rs. 5			
6	Rs. 5	Rs. 36		Rs. 5			

(10 marks)

- (6). (a). 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 factors that make these economies of scale? Briefly Explain.

(07 marks)

- (b). Long run average cost curve is often called the 'planning curve'. Why? Explain.

(08 marks)

(c). Prove the following axiom taking into account the cost in short run.

$$MC = w \frac{1}{MP}$$

MC – Marginal Cost

MP – Marginal Product

W - Wage

(10 marks)

(7). (a). Explain the difference between short run and long run equilibrium of a firm under perfect competition. If the firm is in equilibrium in the short run, will it be in equilibrium in the long run also? Explain.

(10 marks)

(b). Why are advertising and selling costs considered to be important in monopolistic competition?

(08 marks)

(c). Explain using a diagram the price discrimination in monopoly and discuss briefly the conditions required for price discrimination.

(07 marks)

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

(a). Income Consumption Curve and Price Consumption Curve

(b). Marginal Rate of Technical Substitution (MRTS)

(c). Returns to Scale in production

(d). Cobb- Douglas production function

(e). Kinked Demand Curve in oligopoly

(12.5 marks for each)
