SOUTH EASTERN UNIVERSITY OF SRI LANKA

FIRST YEAR EXAMINATIONS IN BACHELOR OF BUSINESS ADMINISTRATION / COMMERCE (EXTERNAL) – 2009 /2010 HELD IN AUGUST 2010

BBA/COM 14 (I) – MICRO ECONOMICS

Answer **all** Questions. Calculator is allowed

Time allowed: **03 Hours**

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01. (a) Differentiate the cardinal utility from the ordinal utility.

(05 Marks)

(b) Using marginal utility theory derive a consumer demand curve for a commodity.

(05 Marks)

(c) A consumer's Totally Utility function of two goods X and Y are as following,

$$TUx = 100x - x^2$$

$$TUy = 80y - 2y^2$$

Price of X = Rs.2/=

Price of y = Rs.4/=

Consumer income = 120/=

(i) Derive the Marginal Utility function for commodity X and Y .

(02 Marks)

(ii) Find out quantities of the commodities X and Y at maximizes the utility of the consumer.

(02 Marks)

(iii) Fond out the Marginal Utility for commodities X and Y.

(02 Marks)

(iv) Fond out the Total Utility for commodities X and Y.

(02 Marks)

(v) Now, price of the commodity Y decreases by 2/=per unit. Keeping other things are constant. Find out the new optimum combination of commodities X and Y.

(02 Marks)

02.

(a) Show, how the individual's demand curve and income demand curve for a commodity is derived from the Indifference Curve Analysis.

(06 Marks)

(b) Explain the consumer equilibrium under the Indifference Curve Analysis and Marginal Utility theory.

(06 Marks)

(c) Explain, Income effect , Substitution effect and Price effect using graphical method.

(08 Marks)

03.

(a) Graphically explain the relationship between Total, Average and Marginal production in a short – term production function.

(05 Marks)

(b) Graphically illustrate the optimum factor combination.

(05 Marks)

(c) Explain, the main features of a perfect competitive firm.

(04 Marks)

(d) Briefly describe how the normal and abnormal profits of a perfect competitive firm are determined. Use appropriate graph in your answer.

(06 Marks)

04.

(a) Given the following information on cost function of a competitive firm:

(Firm's fixed cost is Rs.60/=)

Total Product	Total Fixed Cost	Total Cost	Average Fixed Cost	Average Variable Cost	Marginal Cost
0	-	60	-	-	-
1	-	105	-	-	-
2	-	145	-	-	-
3	-	165	-	-	-
4	-	210	-	-	-
5	-	245	-	-	-
6	-	285	-	-	-
7	-	330	-	-	-
8	-	385	-	-	-
9	-	450	-	-	-
10	-	525	-	-	-

(i) Fill the remaining columns in the table.

(05 Marks)

(ii) Graphically Show the fixed cost, Variable cost and Total cost .

(05 Marks)

(ii) Graphically show and explain the relationship as following;
AFC,AVC and MC .

(04Marks)

(b) **The Total Cost (TC) function of a perfectly competitive market is given as follows.**

$$TC = 200 + Q^3 - 7Q^2 + 12Q$$

Where Q is the Quantity of output

Derive the following :

TFC,TVC,AFC,AVC,AC and MC

(06 Marks)

05. Briefly explain the following by using diagrams.

(a) **Budget line and Iso- Cost line.**

(b) **Price consumption curve (PCC) and Income consumption curve (ICC)**

(c) **Marginal rate of Substitution (MRS) and Marginal Rate of Technical Substitution. (MRTS)**

(d) **Properties of an Indifference Curve and Iso- Quant**

(e) **Various Shapes of Engel curve**

(05 x 4 =20Marks)