Model Paper

First Year (100 Level) Examination in Bachelor of Arts (External New Syllabus)
(April 2017)

ECNE 101 Introduction to Economics

Answer **Four** questions only

The total number of questions in this paper is 06

each question 25 marks.

(Three Hours)

1. (a). Explain the difference between economic cost and accounting cost. (4 Marks)

   (b). Why the marginal cost curve, average variable cost curve and average total cost curves are generally U shaped in the short run? (6 Marks)

   (c). Why marginal cost curves always intersect average cost curves at the minimum of the average cost curve in the short run. (5 Marks)

2. (a). "A perfectly competitive firm is a 'price taker' and can sell any amount of the commodity at the established price" Explain this statements stating the assumptions related to perfectly competitive firm. (9 Marks)

   (b). Explain the short-run supply curve of the perfectly competitive firm. (6 marks)

3. (a). "Being a monopolist doesn't guarantee an economic profit always" Why? Explain this statement using suitable diagrams. (8 Marks)

   (b). Using appropriate diagrams compare and contrast the long run equilibrium of a perfect competitive firm and a monopoly firm. (7 Marks)

4. You are given the following information regarding an open economy (Rs. Million).

Consumption Function:	C	$= 80 + 0.8\,Y_d$
Private Investment:	I	= 85
Government Expenditure	G	= 80
Direct Tax Function:	T	= 0.1Y
Exports	X	= 70
Imports	M	= 25

(a) Determine the equilibrium level of national income (Y) of the economy. (4 Marks)

(b) Estimate the value of the income multiplier (2 Marks)

(c) If private investment (I) increase to Rs. 95 million, what would be the new equilibrium level of national income. (3 Marks)

(d) Suppose the value of tax rate (t) increases to 0.15, (T = 0.15Y). How does the income multiplier change? (3 Marks)

(e) If the government expenditure equals the government tax revenue (G = T) will there be any multiplier effect on the economy? Why? (3 Marks)

5. a. Briefly explain the process of creation of money. (4 marks)

b. What is the deposit/money multiplier and how does it relate to the required reserve ratio? (3 Marks)

c. Suppose you are a member of the Monetary Board of the Central Bank of Sri Lanka. The economy is experiencing a sharp and prolonged inflationary trend. What changes in (a) the reserve ratio, (b) the bank rate, and (c) open market operations would you recommend? Explain briefly in each case how the changes you advocate would affect commercial bank reserves, the money supply, interest rates, and aggregate demand. (8 marks)

6. Differentiate **any three** of the following pairs of concepts.

a. Consumer's surplus and producer's surplus
b. The law of diminishing returns and the law of returns to scale
c. Marginal propensity to consume (MPC) and average propensity to consume (APC)
d. Income multiplier and deposit multiplier
e. Monetary base and supply of money

(15 Marks)