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

ECNE 101: Introduction to Economics

Instructions
Answer any ***Four*** questions only
Time allowed: Three hours
Twenty five (25) Marks for each question

1. i. Explain verbally the statement 'There is no such thing as a free lunch' in relation to scarce resources
ii. "The choice between investing in capital goods and producing consumer goods today affects the ability of an economy to produce in the future". Do you agree? Explain
iii. Name the different types of economic systems. Identify the main characteristics of them
iv. In the market mechanism, price will act as a signal in allocating scarce resources. Explain the function of price as a signal in markets

2. i. What is the difference between the law of demand and the theory of demand?
ii. What are the situations where a positive relationship can exist between the price of a certain product and its quantity demanded?
iii. Identify the product categories described by each of the following statements
a. The coefficient of income elasticity of demand which is less than 1
b. The coefficient of income elasticity of demand which exceeds 1
c. The coefficient of cross price elasticity of demand which takes a positive value
d. The coefficient of cross price elasticity of demand which takes a negative value

iv. The following are the market demand and market supply equations that represent a certain product

$$Q_d = 600 - 10P$$
$$Q_s = 10P$$

Assume that the government implements a price support system where it agree to buy the surplus output with the guaranteed price of Rs.50 for this product. Answer the following questions.
a. Draw the demand and supply curves in a diagram
b. Calculate the equilibrium price and quantity when there is no government intervention
c. Calculate consumer outlay and producer revenue if the government purchases the surplus output with the guaranteed price
d. Calculate the change in the consumer surplus and producer surplus due to the guaranteed price

3. i. Explain the difference between following concepts
a. Economic profit and normal profits
b. Explicit costs and implicit costs
c. Average product(AP) and marginal product(MP)
d. Returns to an input and returns to scale

ii. Draw Average variable cost, Average fixed cost, Average cost and Marginal cost curves in the same diagrams
iii. Explain why does the minimum point of MC curve occur to the left of the minimum point of AC curve
iv. Define increasing returns to scale, constant returns to scale and diminishing returns to scale
v. All costs are variable costs in the long run. explain
vi. What determines the degree of competitiveness in a market?

i. Identify the main macroeconomics goals
ii. Explain the difference between real GDP and nominal GDP?
iii. Explain two reasons why real GDP per capita is not a good measure of the standard of living
iv. Identify the difference between following concepts
    a. GDP and GNP
    b. Personal income and disposable income
    c. Net export and net foreign factor income
    d. Government total tax revenue and net indirect tax revenue
v. Explain the recent changes made in national accounting system in Sri Lanka

5. i. Consider the economy described by the following information

Consumption	$C = 100 + 0.75\ Y^d$
Investment	$I = 75$
Tax rate	$t = 10\ \%$
Transfers	$TR = 100$
Government expenditure	$G = 100$

a. Define MPC, APC, MPS and APS
b. Determine the equilibrium level of national income
c. Calculate the multiplier and interpret it
d. Calculate the budget deficit
f. Show graphically the equilibrium level of national income

ii. Describe the conditions under which an increase in the money supply would be inflationary

6. Briefly explain any FIVE of followings
i. Basic economic problems
ii. Characteristics of perfect competitive market
iii. Substitutes and complementary goods
iv. Fiscal and monetary policies
v. Market failure
vi. Functions of money
vii. Determinants of housing demand