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தொடர் தொலைக் கல்வி நிலையம் - பேராதனைப் பல்கலைக்கழகம்
CENTRE FOR DISTANCE & CONTINUING EDUCATION – UNIVERSITY OF PERADENIYA

First Year (100 Level) Examination in Bachelor of Arts (External New Syllabus)
(August 2018)

ECNE 101: Introduction to Economics

Instructions

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

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1. i. Define the concept of opportunity cost and explain whether it is always important in decision making process.

   ii. Define Production Possibilities Frontier (PPF) and explain how a PPF can be used to illustrate the scarcity.

   iii. Using the PPF, explain the concepts of increasing, decreasing and constant opportunity costs.

   iv. Identify four main characteristics of a market economy. Explain the advantages and disadvantages of it.

   v. 'Economic incentives can be monetary or non-monetary'. Do you agree? Explain your answer with appropriate examples. (5 marks for each)

2. i. The following are the market demand and market supply equations that represent a certain commodity.

$$Q^d = 200 - 10P$$
$$Q^s = -100 + 20P$$

   a. Draw the demand and supply curves in a diagram. (2 marks)
   b. Calculate the equilibrium price and quantity. (2 marks)
   c. If the government imposes a specific tax of Rs. 3 per unit, identify the effects on equilibrium price and quantity. (2 marks)
   d. Calculate the changes in the consumer surplus and producer surplus due to the tax. (3 marks)
   e. If the government grants a subsidy of Rs. 3 per unit instead of tax, identify the effects of it on equilibrium price, quantity and total surplus. (5 marks)

   ii. Define the following concepts.
   a. Price elasticity of demand.
   b. Income elasticity of demand.
   c. Cross price elasticity of demand. (2 marks for each)

   iii. Explain the substitution effects and income effects of a normal good and a *Giffen* good when the price increases. (5 marks)

3. i. Distinguish between 'short-run' and 'long run' in the context of production. (2 marks)

ii. What is the difference between returns to an input and returns to scale? (2 marks)

iii. Define the following concepts.
a. Average Product (AP).
b. Marginal Product (MP).
c. Average Costs (AC).
d. Marginal Costs (MC). (2 marks for each)

iv. Draw Total Cost(TC), Total Fixed Cost(TFC), and Total Variable Cost (TVC) curves in the same diagrams. Identify the main reason to the behavior of each. (3 marks)

v. Identify three stages of a short run production process using appropriate diagrams. (3 marks)

vi. Draw Average Variable Cost(AVC), Average Fixed Cost(AFC), AC and MC curves in the same diagrams. (3 marks)

vii. Explain why does the minimum point of MC curve occur to the left of the minimum point of AC curve. (2 marks)

viii. Explain the relationship between short run average variable cost and average product using appropriate diagrams. (2 marks)

4. i. Explain the followings related to the inflation.
a. Price effects.
b. Income effects.
c. Wealth effects. (2 marks for each)

ii. Explain the different types of unemployment? (4 marks)

iii. Identify the main phases of the business cycle using appropriate diagram. (2 marks)

iv. Explain two reasons why real GDP per capita is not a good measure of the standard of living. (2 marks)

v. Identify the difference between following concepts.

a. Total personal income and disposable income.
b. Market price and basic price.
c. Net export and net foreign factor income.
d. Private saving and public saving. (2 marks for each)

vi. Explain the recent changes made in national accounting system in Sri Lanka. (3 marks)

5. i. Consider the economy described by the following information (All values are in Rupees).

Consumption	$C = 100 + 0.8Y^d$
Investment	$I = 150$
Tax rate (income)	$t = 5\ \%$
Transfers	$TR = 100$
Government expenditure	$G = 250$
Net Export	$Nx = 140$

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 or surplus.
e. Calculate the consumption expenditure at the equilibrium.
f. If full employment level of national income is Rs.3500, how much investment or government. expenditure need to be increased to achieve it.
e. Show graphically the equilibrium level of national income. (3 marks for each)

ii. Describe the conditions under which an increase in the money supply would be inflationary. (4 marks)

6. Briefly explain any FIVE of followings. (5 marks for each)

i. Public debt in Sri Lanka.
ii. Net factor income in Sri Lanka.
iii. Issues of the national income accounting in Sri Lanka.
iv. Fiscal and monetary policies.
v. Costs of unemployment.
vi. Functions of money.
vii. Determinants of economic growth.