UNIVERSITY OF PERADENIYA

CENTRE FOR DISTANCE AND CONTINUING EDUCATION

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கலைத்தேர்வுப் பரீட்சை (வெளிவாரி–புதிய பாடத்திட்டம்) 100 வது தேர்ச்சி மட்டம் –   2020
Bachelor of Arts (External - New Syllabus) 100 Level –   2020
Take-Home Open Book Examination

ECNE 101 INTRODUCTION TO ECONOMICS

Instructions
Answer all questions
Total marks =100

1.

   i Distinguish between explicit cost and opportunity cost. Explain your answer using an appropriate example.   (03 marks)

   ii Suppose that an economy's production possibility frontier is a straight line. What would this say about the nature of opportunity cost?   (03 marks)

   iii What are the reasons for an economy to operate inside its production possibility frontier?   (03 marks)

   iv What are the factors that cause outward shift in the production possibility frontier of an economy.   (03 marks)

   v Explain how scarcity, choice and cost are related to the problems faced by consumers and producers.   (3 marks)

2. a.

    i.   State the law of demand   (1 marks)
    ii.   What are the factors that increase demand for a good?   (2 marks)
    iii.   Explain why a reduction in the price of a normal good does not increase the demand for the good.   (2 marks)
    iv.   Over the last two decades, tuition fees for the external degrees at the University of Peradeniya have increased by 10 %. At the same time, the number of students enrolled has increased from 1000 to 2000. Does this example demonstrate that the Law of Demand is false? Why or why not?   (3 marks)

  b. The demand and supply for statisticians is given by Qs=4P-80, Qd= 100-2P where P is hourly wage and Qs=quantity supplied, Qd=quantity demanded

    i.   Graph the supply and demand functions.   (1 marks)
    ii.   Find the equilibrium price and equilibrium quantity.   (2 marks)
    iii.   Calculate consumer and producer surplus at the equilibrium   (4 marks)

3. a.
  i Explain the concept of the production function. (3 marks)
  ii Define marginal product and average product of labour. Explain the relationship between the average product and the marginal product of labour using a graph. (4 marks)

  b.
  i Distinguish between variable cost and fixed cost. (2 marks)
  ii Explain the shapes of the curves of Total cost, Fixed cost, average cost. (3 marks)
  iii Define the term marginal cost and explain the relationship between average cost and marginal cost. (3 marks)

4. Briefly discuss the following.
  i The functions of money
  ii High powered money
  iii Velocity of money
  iv Fiscal deficit and its implications
  v Financing a government budget deficit. (3 marks each)

5. a. i. What are the components of aggregate expenditure? (3 marks)
  ii. Which components vary with the level of real national income? (3 marks)

  b. Imagine an economy is having consumption function $C = 100 + 0.75Y_d$,
  Yd= disposable income (Yd=Y-T)
  I=investment =400
  Government spending =800
  Exports =600
  Imports = 500
  Tax revenue =100,

  i. Find the equilibrium level of national income, and show in a graph (3 marks)
  ii. Find and interpret MPC and MPS (2 marks)
  iii. Find net exports (2 marks)
  iv. Write down saving function (2 marks)

6. Write short essays on the following

  i. Opportunity cost and the PPC
  ii. Price floor and price ceiling
  iii. Nominal exchange rate and real exchange rate
  iv. Monetary policy and Fiscal policy
  v. GDP deflator and Inflation (5 marks each)