



Bachelor of Arts (External-New Syllabus) Examination 100 Level 2025

ECNE 101: Introduction to Economics

Instructions

- Answer any **Five (05)** questions only
- Time allowed: **Three (03)** hours
- Marks Allocated: **Twenty (20)** Marks for each question.

- Describe the relationship between the theory of utility and the theory of Demand (06 Marks)
 - What do you mean by the concept of ‘consumer equilibrium’? (06 Marks)
 - If market price of one product rises, what adjustments should be effected to achieve a new level of consumer equilibrium? (08 Marks)
- The demand and supply equations of a competitive industry are given below

Quantity demanded: $P = 30 - \frac{1}{3}Q_d$

Quantity supplied: $P = 6 + \frac{1}{3}Q_s$

 - Calculate the equilibrium price (P) and quantity (Q) in the industry (04 Marks)
 - Calculate the demand and supply elasticity at equilibrium (04 Marks)
 - “The magnitude of tax revenue of the government depends on the price elasticity of demand and supply of products concerned”
 - Explain how supply elasticity of price can influence the magnitude of government tax revenue (06 Marks)
 - Explain how demand elasticity of price can influence the magnitude of government tax revenue (06 Marks)
- Briefly describe the meaning of production function. (04 Marks)
 - Explain the difference between short-run and long-run production function (04 Marks)
 - Consider the production function $Q = 2K^{1/3}L^{1/3}$ where Q is the quantity of output and K and L are the amount of capital and labor input used respectively. (06 Marks)

Derive the marginal productivity of labor (MP_L) function assuming that capital is fixed at 125 units.

 - Assume that both K and L are increased by 25%. What will happen to the output? Why? Give reasons. (06 Marks)
- What do you understand by “market failure”? briefly explain the main reasons for market failure (10 Marks)
 - How do you describe the role of government in a market economy? (10 Marks)

5. Consider the following economy. (Values in million rupees).

Consumption function	$C = 180 + 0.8 Y^d$ (Y^d disposable income)
Investment	$\bar{I} = 300$
Government expenditure	$\bar{G} = 400$
Tax revenue	$T = 100 + 0.25Y$
Net Export	$(X-M) = 200$

- i. Calculate the equilibrium level of GDP of the economy (04 Mark)
 - ii. Estimate the value of the income multiplier (04 Mark)
 - iii. Suppose investment falls to 200 mn. What is the new equilibrium? (04 Mark)
 - iv. Calculate the budget deficit of the government at the new equilibrium income (04 Mark)
 - v. What is the difference between Autonomous expenditures and induced expenditures? (04 Mark)
6. i. Identify the main macroeconomics goals. (04 Marks)
- ii. Explain five reasons why real GDP per capita is not a good measure of the standard of living. (05 Marks)
- iii. Explain the following related to the inflation
- a. Price effects (02 Marks for each)
 - b. Income effects
- iv. Briefly Explain the difference between following concepts (02 Marks for each)
- a. Real GDP and nominal GDP
 - b. Personal income and disposable income
- v. Explain the components of the monetary base. What factors influence on the monetary base? (03 Marks)
7. Briefly explain any **Four** of the following topics
- i. Income-consumption curve
 - ii. Law of diminishing marginal returns
 - iii. Law of returns to scale
 - iv. Keynesian theory of demand for money
 - v. Inflationary gap and deflationary gap (05 Marks for each)
 - vi. Objectives of government-imposed price ceilings and price floors
