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 பேராதனைப் பல்கலைக் கழகம்
 UNIVERSITY OF PERADENIYA



දුරස්ථ හා අඛණ්ඩ අධ්‍යාපන කේන්ද්‍රය
 தொடர் தொலைக் கல்வி நிலையம்
 CENTRE FOR DISTANCE AND CONTINUING EDUCATION

සාධාරණ ළපාධි පරීක්ෂණය (බාහිර-පැරණි) - 2019 ඔක්තෝබර්
 முதற்கலைத்தேர்வு பரீட்சை (வெளிவாரி) -2019 டிசம்பர்
 GENERAL DEGREE EXAMINATION IN ARTS (EXTERNAL-old) – October 2019

ECONOMICS I - (ECG 1)

Instructions:

The total number of questions in this paper is 10
 Answer five (05) questions selecting at least two from each part
 Time allowed: **Three (03) hours** only
 Graph papers are provided, and calculators are allowed

Part I

1. A consumer whose weekly income is Rs. 36.00 wants to buy two commodities, (X, Y) of which total utility functions are given by the following equations.

$$TU_x = 50Q_x - 5Q_x^2$$

$$TU_y = 32Q_y - 4Q_y^2$$

Assume that the price of X is Rs. 5.00 and the price of Y is Rs. 8.00

- i. Calculate the consumer's equilibrium quantities purchases (05 marks)
 - ii. How do you explain the meaning of this equilibrium? (05 marks)
 - iii. Calculate the marginal utility of money at the equilibrium. (05 marks)
 - iv. Assume that the price of X has increased by Rs. 2.00, while other things remain the same. What should be the consumer's new equilibrium purchases? (05 marks)
2. i. Explain the relationship between utility approach and the indifference curve approach to consumer demand theory. (10 marks)
- ii. Which of these two approaches is preferable? Why? (05 marks)
 - iii. How do you derive a demand curve using one of the above two approaches? (05 marks)
3. Using costs and marginal revenue curves for a perfectly competitive firm, show and explain the following:
- i. Firm is making normal profit (04 marks)
 - ii. Firm is making economic profit (04 marks)
 - iii. Decision to shut down the firm temporarily (06 marks)
 - iv. Explain why all firms in a competitive market tend to make normal profit in the long run. (06 marks)
4. i. What factors determine the demand for labour? (08 marks)
- ii. Explain how wages are determined in a competitive labor market. Does it differ from wage determination in a monopoly market? (12 marks)

5. Write short notes on the following
- Income-consumption curve
 - Isoquant and Marginal rate of Technical Substitution
 - Law of diminishing marginal returns
 - Capacity utilization of monopolistic competitive firm (05 marks each)

Part II

6. 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	$(X-M) = 200$

- Calculate the equilibrium level of GDP of the economy (05 marks)
 - Estimate the value of the income multiplier (05 marks)
 - Suppose investment falls to 200 mn. What is the new equilibrium? (05 marks)
 - Calculate the budget deficit of the government at equilibrium income (05 marks)
7. i. Briefly discuss the role of monetary policy in achieving a higher level of GNP. (10 marks)
- ii. Explain the components of the monetary base. What factors influence on the monetary base? (10 marks)
8. i. Compare and contrast the absolute advantage theory and comparative cost theory. (08 marks)
- ii. Briefly outline the advantages and disadvantages of flexible exchange rate system. (12 marks)
9. i. Explain the concept of deficit in the Balance of Payments. (08 marks)
- ii. Explain the role of Bretton woods system for formulating and maintaining the exchange rate system. (12 marks)
10. Write short notes on the following
- Determination of income multiplier
 - Fiscal deficit and trade balance
 - International Monetary Fund
 - Autonomous expenditures and induced expenditures (05 marks each)