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Instructions:

Answer five questions only, selecting minimum of two questions from Subsection "A" and two questions from Subsection "B"

Sub section 'A'

1. (i) "All factors of production are Economic resources." Do agree? explain. (6 marks)
(ii) Mention 3 situations where the opportunity cost is zero. (3 marks)
(iii) Classify natural resources and explain them with examples. (5marks)
(iv) Explain how division of labour and specialization facilitates productivity of the production process. (6marks)
2. (i) "There is an inverse relationship between price of the good concerned and quantity demanded". Mention whether this statement is positive or normative. Explain. (4marks)
(ii) What is meant by an economic system? What are the criteria to differentiate economic systems? (4 marks)
(iii) What are the socialist market economies at present in the world? Give 2 examples. (4marks)
(iv) Present 2 similarities and dissimilarities between command economic system and market economic system. (4 marks)
(v) "Price mechanism fails in distributing resources efficiently". Do you agree? Give reasons. (4 marks)
3. (i) What are the assumptions made in drawing the production possibility curve? (4marks)
(ii) Explain "The law of increasing opportunity cost" and mention the reasons for such situations to occur. (4marks)
(iii) Explain economic decline and economic recession by using production possibility curves and mention the characteristics which can be seen in an economy in such situations. (8marks)
(iv) Describe the following events by using the production possibility curves.
 - a. Net out migration of more specialist doctors for foreign services.
 - b. Purchasing capital assets such as buses, flights, trains to promote transport services. (4 marks)

Sub section 'B'

4. (i) a. Why consumers demand more of a good when its price decreases? (4marks)
 (ii) Introduce the price effect and explain graphically how the price effect is operating when the price of an inferior good decreases. (4 marks)
 (iii) What are the non- price devices used in rationing? (4 marks)
 (iv) The demand function in a free competitive market is $Q_d = 100 - 2p$ and the supply is perfectly elastic. Market equilibrium quantity is 50 units.
 a. Show the equilibrium in a graph and estimate the economic surplus at the equilibrium (4 marks)
 b. If the government imposes a Rs 10 unit tax on producers, estimate the total economic surplus and welfare loss (4marks)

5. (i) Define the law of supply and mention the non-price factors influencing the supply. (4marks)
- (ii) Given below are demand and supply functions for a particular good sold in a competitive market.
 $Q_d = 14 - p$
 $Q_s = -2 + p$
- Estimate equilibrium price and quantity? (2 marks)
 - Estimate the price elasticity of demand and producer revenue at the market equilibrium (2 marks)
 - If the government has decided the maximum selling price as Rs5 for this good, mention 2 effects which can be created in the market by this event. (2 marks)
- (iii) Given below are demand and supply equations for a particular good in the market.
 $Q_d = 1000 - 20p$
 $Q_s = -200 + 20p$
- Estimate the equilibrium price and quantity in the market. (2 marks)
 - If the government provides a subsidy of Rs 20 on this product, estimate the consumer surplus and producer surplus after the subsidy. (4 marks)
 - Estimate the cost of the government on the subsidy. (2 marks)
 - Estimate the dead weight loss of incurred due to the subsidy. (2 marks)
6. (i) What are the special situations where the coefficient of elasticity of demand is equal at every point on the demand curve? (3marks)
- (ii) What is meant by income elasticity of demand? Mention the practical importance of this elasticity. (4marks)
- (iii) Given below are demand and supply equations for a particular good in the market.
 $Q_d = 200 - 5p$
 $Q_s = -50 + 5p$
- The government imposes a guaranteed price of Rs 35 on this product and the excess supply is purchased by the government, estimate the consumer surplus and producer surplus under this situation. (5 marks)
 - How much is the government cost for this event? (2 marks)
 - Estimate the dead weight loss due to this intervention. (2 marks)
- (iv) Why the prices of agricultural products are fluctuating more than the prices of industrial products in the market? What are the steps taken by the government for price stabilization to avoid this condition? (4 marks)
7. (i) Show the difference between short run and long run in the production using a production function. (4 marks)
- (ii) What is meant by “the law of diminishing returns”? and show the behavior of the average product curve and marginal product curve. (4marks)
- (iii) Describe the increasing returns to scale and mention the factors for economies of scale. (4marks)
- (iv) Show the difference between economic profit and accounting profit. (4marks)
- (v) Explain the sunk cost and give 2 examples. (4marks)