

SOUTH EASTERN UNIVERSITY OF SRI LANKA

First Examination in Bachelor of Science in Management and Information Technology – 2009/2010
SEMESTER – II, ~~January~~/February - 2012

MIT 1223 – Business Economics

Answer all questions.

Time: 03 hours

01).

- (a) Define the term “Business Economics”? (05 Marks)
- (b) There are many basic economic concepts which are used by business organizations in managerial decision making. Briefly explain how basic economic concepts can be applied to business organizations? (07 Marks)
- (c) The business economist is play major role in making business decision and supposes to function as the chief advisor to business concern. Define the role and responsibility of business economist? (08 Marks)

02).

- (a) Explain the characteristics of Monopolistic competition? (05 Marks)
- (b) Describe graphically how profit maximization in the short run vary from long run in a perfectly competitive market? (05 Marks)
- (c) “The monopolist has a price policy; the competitive producer does not”. Explain? (05 Marks)
- (d) How does the kinked demand curve describe the strategic behavior of an Oligopolistic firm? (05 Marks)

03).

(a) Explain the substitution effect, income effect and total effect using graph (05 Marks)

(b)

I = Rs. 10,000.00

P_x = Rs 500.00

P_y = Rs 500.00

Where:

I = Income, P_x = Price of x, P_y = Price Y

According to the revealed preference theory, When the price of X declines by Rs. 100.00 what is the fresh option of his consumption. Graphically illustrate, consider no change in income and price of Y.

(07 Marks)

(c) Consider an individual who consumes two goods X and Y and his utility function given below;

$$U = X^{0.2} Y^{0.6}$$

And budget constraint $M = P_x X + P_y Y$ where M = Income, P_x = Price of goods X and P_y = Price of good Y. Assume utility is maximized by choosing X and Y.

iii) Derive the Marshallian demand function for X and Y
(Use Lagrange multiplier technique)

iv) Using demand function obtained above,

Assuming the unit prices of X and Y are Rs. 30/- and Rs. 15/- respectively and the level of disposable income is Rs. 1500/- find out the optimum combination of X and Y.

(08 Marks)

04).

(a) Briefly discuss the following pricing policies.

- a. Skimming pricing
- b. Cost plus pricing
- c. Peak-load pricing
- d. Penetration pricing
- e. Psychological pricing

(10 Marks)

(b) Production functions firm undertakes production using two factors of production function is given below:

$$U = X^{0.2} Y^{0.6}$$

$$Q = 1000 F_1^{0.75} F_2^{0.25}$$

Constraint function $C = P_1 F_1 + P_2 F_2$

Where:

F_1 } Factors of production
 F_2 }

P_1 } Price of factors of production
 P_2 }

- e. Find out the demand function of factors of F_1 and F_2
- f. Assume that $P_1 = 100/-$, $P_2 = 200/-$, production cost 20,000/-. Find out the total quantity of factors F_1 and F_2 and optimum output level?
- g. Now price of factors of production,

$$P_1 = 75/-$$

$$P_2 = 150/-$$

Considering that no change in production expenditure. Find out quantity of factors F_1 and F_2 and optimum output level?

- h. Using the results in question (C), explain briefly whether firm will survive in a market environment or not? (10 Marks)

05) Explain the Game Theory using practical examples related to business (20 Marks)