

Uva Wellassa University
Faculty of Animal Science & Export Agriculture
BSc in Export Agriculture
Bachelor of Animal Science
BSc in Tea Technology and Value Addition
BSc in Palm and Latex Technology and Value Addition



End Semester Examination – September/October 2012
Year I Semester II

Economic Thinking in Agriculture (EAG 121-3/0)

Instructions

Answer **All** questions

No. of questions : Three (03)
No. of pages : Two (02)
Time : One hour (1 hr)
Total marks allocated : 40/100



Part III – Essay

Question 01

- I. Describe four basic conditions that define perfect competition
- II. Does perfect competition exist in the real world?
- III. Explain and compare the characteristics of various revenue curves and the demand curve that are faced by;
 - a. a perfectly competitive firm
 - b. a monopolistic competitive firm
- IV. Let the demand function and the cost function of a firm be

$$P + Q = 30$$

$$TC = \frac{1}{2}Q^2 + 6Q + 7$$

Where p is the Price, Q is the quantity produced and TC is the total cost

- a. Find the level of output that maximizes total revenue
- a. Find the level of output that maximizes profit. Calculate **MR** and **MC** at this value of Q . What do you observe?

Question 02

- I. Define the following
 - a. Utility
 - b. Marginal utility
 - c. Marginal Rate of Substitution
- II. What is meant by "Consumer Equilibrium"
- III. State the condition for consumer equilibrium
- IV. A student spends \$10 per day for his tea and biscuits and tries to maximize his utility. Price of a cup of tea and a biscuit is \$2 and \$1 respectively. The following table provides data derived on this utility function.

Tea	0	1	2	3	4	5	6	7	8	9	10
Total Utility	0	13	24	34	42	49	55	58	60	60	55
Biscuit	0	1	2	3	4	5	6	7	8	9	10
Total Utility	0	14	26	37	47	56	64	70	74	77	78

- a. Calculate marginal utility for each good for each level of consumption.
- b. At the maximum utility level, find the number of units he consumes.
- c. If he can spend \$20, how he allocates the budget to receive maximum satisfaction under the same prices of the goods?

Question 03

- I. For a domestic economy, $C = 85 + 0.75 Y_d$, Investment (I) = 50, Government Spending (G) = 150, Government transfers (TR) = 100, Income tax rate (t) = 0.20
 - a. What is the multiplier?
 - b. Calculate the equilibrium income.
 - c. If Government spending (G) rises to 250 and t increases to 0.25, calculate the equilibrium income.
- II. Write short notes on followings;
 - a. Business Cycle
 - b. The goods market & the IS curve