

THE OPEN UNIVERSITY OF SRI LANKA  
FACULTY OF MANAGEMENT STUDIES



ADVANCED CERTIFICATE IN ENTREPRENEURSHIP & SMALL BUSINESS  
MANAGEMENT (ESBM)

AFC 2308 - INTRODUCTION TO ECONOMICS  
FINAL EXAMINATION - 2024/2025  
DURATION – TWO HOURS (02)

*DATE: 24<sup>th</sup> MAY 2025*

*TIME: 1.30 p.m. – 3.30 p.m.*

**Instructions:**

- This question paper consists of six (06) questions. Answer any four (04) questions.
- Please write your Index Number in the space provided in the answer script.
- This question paper consists of two (02) typed pages.
- Attach the workings to your answer booklet.
- All questions carry equal marks (25 marks each).
- The use of non-programmable calculators is permitted.

**Question No. 01.**

- i. Define scarcity and explain why it is the basis of economics. (08 Marks)
- ii. What is the opportunity cost? Give an example from an entrepreneur's perspective. (08 Marks)
- iii. How do alternate uses of resources lead to the question of choice? Briefly explain. (09 Marks)

**Question No. 02.**

- i. Explain the Law of Demand and why it results in a downward-sloping curve. (06 Marks)
- ii. What causes a shift in the supply curve, and how is it different from movement along it? Briefly explain. (09 Marks)
- iii. Explain how an increase in consumer income affects the demand for a Normal good. (10 Marks)

**Question No. 03.**

- i. Given the demand equation  $Q_d = 80 - 4P$  and supply equation  $Q_s = 20 + 2P$  for a product, calculate the equilibrium price and quantity. (10 Marks)
- ii. Explain how a decrease in the price of a substitute good affects the demand curve for this product. (07 Marks)

- iii. What is the difference between a change in quantity supplied and a change in supply? Provide an example of a factor causing a change in supply. (08 Marks)

**Question No. 04.**

- i. Define marginal product and explain its significance in production decisions. (06 Marks)
- ii. Differentiate between total fixed cost (TFC) and total variable cost (TVC) in the short run. (07 Marks)
- iii. List the four factors of production and briefly describe their role in the production decision making process. (12 Marks)

**Question No. 05.**

- i. What is aggregate demand, and what are its main components? (07 Marks)
- ii. How does the short-run aggregate supply curve differ from the long-run curve? Briefly explain. (09 Marks)
- iii. Why is full employment a key macroeconomic goal? Explain. (09 marks)

**Question No. 06.**

- i. Describe the circular flow of income in a two-sector economy. (08 Marks)
- ii. What is national income, and how does the expenditure approach measure it? (07 Marks)
- iii. How does equitable income distribution support economic stability? Explain. (10 Marks)

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