



G.C.E. A/L Examination November - 2019

Conducted by Field Work Centre, Thondaimanaru

In Collaboration with

Provincial Department of Education Northern Province

Grade – 13 (2020)

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Economics - I

Time : 2 hours

Part – I

❖ Answer the all questions.

❖ In each of the questions 01 - 50. Pick the correct or most appropriate answer.

01. Which of the following statement is correct related to scarcity problem.

- 1) It can be solved through increase capital.
- 2) It doesn't occur in developed countries
- 3) It can be said through opportunity cost.
- 4) It can be created by excess demand
- 5) It can be solved by achieving economic efficiency.

02. Which is positive statement?

- 1) Road accidents can be reduced through increase fine on who violation of traffic rules.
- 2) Labour rights cannot be won without labour strikes.
- 3) Public can be felt the economic development in any way
- 4) Budget for 2018 would change Sri Lanka as blue green economy
- 5) Sri Lankan students who studying in foreign countries are considered as non-residents.

03. Potential output of a country can be stated by production possibility frontier. Which of the following is not considered as an assumption for drawing production possibility curve?

- 1) Technology remains constant
- 2) Economy only produces two goods.
- 3) Resources are in full employment
- 4) Available technology is used efficiently.
- 5) Factor endowment would be transformed.

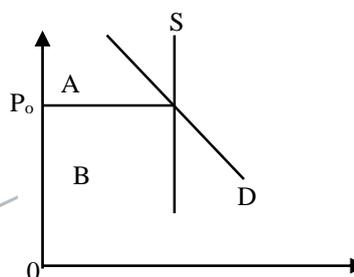
04. While an economy getting production efficiency,

- 1) Resource allocation efficiency can be achieved
- 2) Economic efficiency can be achieved
- 3) Resources would be more allocated for goods and services production which preferred by the society.
- 4) Any goods production cannot be increased without opportunity cost.
- 5) Price of the each good would be equal to marginal cost.

05. Which of the following consider while allocating resources for different production in market economy?
- 1) Demand for goods 2) Supply of Goods 3) Price of Factor
4) Price of the good 5) Profit
06. Which of the following statement states slope of the demand and income elasticity of the demand for inferior goods?
- | Slope of the demand curve | Income Elasticity of Demand |
|----------------------------------|------------------------------------|
| 1) Very much negative slope | Negative value |
| 2) Slow negative slope | no value |
| 3) Positive slope | Positive Value |
| 4) Very much positive slope | infinite |
| 5) Very much negative slope | no value |
07. Assume that other factors including money income remains constant for good X and Y. If decrease demand for y good due to increase price of the X good,
- 1) X and Y goods are substitute goods 2) X is a normal good
3) Y is Normal good 4) X is inferior good 5) Y is inferior good
08. Negative income effect increased than substitution effect due to increase price of the particular good, which of the following good is suitable for this?
- 1) Normal good 2) Inferior good 3) Substitution good
4) Essential good 5) Giffen Good
09. Which of the following is cause for changing Demand equation from $Q_{d0} = 100 - 5p$ to $Q_{d1} = 20 - 5p$?
- 1) Increase the price of the particular good
2) Increase the price of the substitution good
3) Increase the price of the good due to increase quantity demanded
4) Decrease price of the inferior good due to the increase income
5) Increase in consumer satisfaction
10. When increasing quantity demanded of a particular good.
- 1) Price Elasticity of demand will gradually decrease.
2) Income elasticity of demand will gradually increase.
3) Price elasticity of demand will gradually increase.
4) Price of good will increase
5) Sales income will decrease
11. Price elasticity of demand of given good is -1.5, Quantity demanded is 300 units at price Rs 25. If decrease price of the good as price Rs 20, what is quantity demanded?
- 1) 390 2) 630 3) 900 4) 560 5) 90
12. Which one of the following is cause for shifting the supply curve to the left side?
- 1) Increase in profit 2) Increase in opportunity cost 3) Price of the good increase
4) Increase in supply 5) Increase in quantity supplied

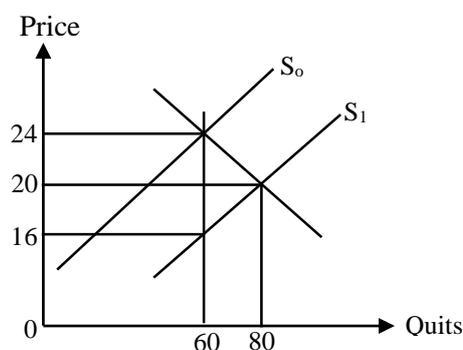
13. When supply equation of a good is $Q_s = -20 + 5P$,
- 1) Supply is elastic and elasticity will gradually decrease by price increases
 - 2) Supply is elastic and elasticity will gradually increase when price increases
 - 3) Supply is elastic and even if increase price, elasticity remains constant
 - 4) supply is inelastic and when increase price, elasticity will gradually decrease
 - 5) supply is inelastic and when increase price, elasticity will gradually increase
14. Price of the particular good has negative relationship with its demand and positive relationship with supply. In given period 1200 units per 80 rupees then 1285 units per 82 rupees were sold. So which of the following is correct answer?
- 1) By increase price of substitute goods
 - 2) By increase price of complementary goods
 - 3) By impose sales tax on goods
 - 4) By increase in production efficiency of inputs
 - 5) By producer gets subsidy
15. The following graph illustrates equilibrium of given good. Which of the following is correct related to economic surplus and marginal cost?

	Economic Surplus	Marginal Cost
1)	B	Shows by $Q_0 - S$ curve
2)	A	Zero
3)	B + A	Zero
4)	Zero	A + B
5)	A + B	$O - Q_0$



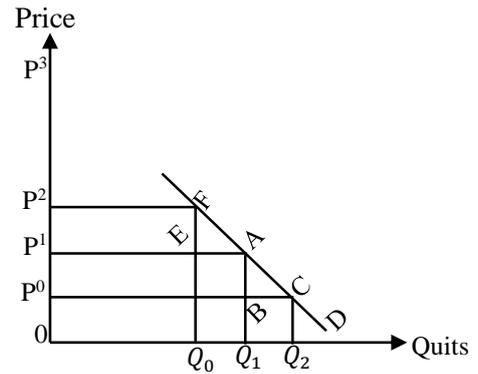
16. Which of the following cause for efficient floor price policy?
- 1) Decrease of consumer surplus and increases in producer surplus
 - 2) Increase in both consumer surplus and producer surplus
 - 3) Increase of consumer surplus and decrease of producer surplus
 - 4) Decrease in both consumer surplus and producer surplus
 - 5) Cannot be predicted about effect of consumer surplus and producer surplus
17. The following graph illustrates how Supply curve shifts from S_0 to S_1 due to the tax imposes on given good. If remove tax, which of the following is correct answer related to tax income and consumer expenditure

	Tax Income	Consumer expenditure
1)	Decrease by Rs 240	Increase by Rs 1440
2)	Decrease by Rs 360	Increase by Rs 1600
3)	Decrease by Rs.480	increase by Rs 240
4)	Decrease by Rs 480	increase by Rs 160
5)	Decrease by Rs 240	decrease by Rs. 160



18. The following graph illustrates market demand for given good. Price of the good is P_0 and supply is inelastic. If imposed unit tax, price of the good increased till P_1 . Which of the following shows tax burden?

- 1) $P_3 P_0 C$ 2) $P_1 P_3 A$ 3) $P_2 P_3 F$
 4) $A B C$ 5) $F E A$

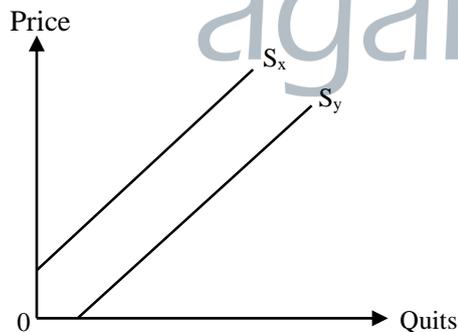


19. Output of a firm increased by 50%, due to the increase of inputs by 40%, It states,
 1) Increasing returns to scale 2) Decreasing returns to scale 3) Increasing economies of Scale
 4) Decreasing Economies of Scale 5) Increasing capital efficiency

20. Which of the following instances suitable for optimum marginal product?
 1) When total production is optimum 2) In point of the bent total production curve
 3) In point of the bent average production curve 4) When average production is optimum
 5) When average product is minimum

21. Which of the following instance is appropriate, when output of a firm increase at short term,?
 1) Vertical distances between Total cost curve and total variable cost Decreases
 2) Vertical distances between total cost curve and total variable cost curve increases
 3) Vertical distances between total cost curve and total variable cost curve remains constant
 4) Vertical distances between total fixed cost and total variable cost curves remains constant
 5) Vertical distances between total fixed cost curve and total variable cost curve decreases

22. The following graph illustrates supply curves of X and Y goods.



Which of the following is not correct related to changes on elasticity and coefficient of supply when increase the price of the good?

X Good		Y Good	
Elasticity	coefficient	Elasticity	coefficient
1) Inelastic	decreases	Elastic	Decreases
2) Inelastic	increases	Elastic	Increases
3) Elastic	Increases	Inelastic	Decreases
4) Elastic	Decreases	Inelastic	Increases
5) Elastic	increases	Inelastic	constant

23. Which of the following instances perfect competitive market earns economic profit in short term?
- 1) Price of the good exceeds its average variable cost
 - 2) Price of the good exceeds its average cost
 - 3) Price of the good exceeds its marginal cost
 - 4) Price of the good equals to marginal cost
 - 5) Average cost of the good exceeds its variable cost
24. When a firm produces 10 units of a good, total cost is Rs. 1500 and when it Produces 14 units, total cost increased to Rs. 1800. Firm's fixed cost is Rs.500.Which of the following represents marginal cost and average variable cost while producing 14 units of good.

Average Variable Cost	Marginal Cost
-----------------------	---------------

- | | |
|---------|----|
| 1) 32.5 | 45 |
| 2) 3.00 | 75 |
| 3) 85.5 | 17 |
| 4) 22.5 | 75 |
| 5) 92.8 | 25 |

25. When a firm considers as perfect competitive firm?
- 1) When Numerous firms seen in a market
 - 2) When marginal revenue equals to average income
 - 3) When firm earns normal profit
 - 4) When barriers seen for exit and entry
 - 5) When firm produces only small share of the total production of the market

26. Labour compensation + Gross operating surplus + other taxes less subsidies on production is equal to
- 1) Gross domestic product
 - 2) Gross domestic income
 - 3) Added value at market price
 - 4) Gross domestic production at factor cost price
 - 5) Added value at basic price

27. Calculated Added value at basic price can be changed to producer price ,
- 1) By adding transport cost with gross operating surplus
 - 2) By adding consumer taxes less subsidies
 - 3) By adding producer taxes less subsidies
 - 4) By adding producer other taxes less subsidies
 - 5) By adding transport cost and import tariff

28. Following information related to national income accounting are given below.(value in million Rupees).

GDP at Purchaser's price	7500
Capital consumption	300
Net exports	1200
Net primary income from rest of the world	1200
Gross domestic income of an Economy is	

- | | | |
|----------------|----------------|----------------|
| 1) Rs 7200 bil | 2) Rs 8700 bil | 3) Rs 8400 bil |
| 4) Rs 8100 bil | 5) Rs 6300 bil | |

29. Following information related to national income accounting are given below.(Value in million)

Labour compensation	4200
Net operating surplus	1200
Mixed Income	400
Capital consumption	400
Other taxes less subsidies on production	250
Taxes less subsidies on product	- 350

Gross domestic product at market price is

- 1) Rs 6800 mil 2) Rs 6450 mil 3) Rs 6200 mil 4) Rs 5800 mil 5) Rs 6050 mil

30. Adding Purchases after remove and deduct values

- 1) Changes in inventories 2) Net foreign investment
3) Fixed investment of business 4) Gross domestic private investment 5) Added value

31. By adding gross operating surplus , mixed income with capital consumption is

- 1) Added value at basic price 2) Added value at market price 3) Added value at producer price
4) Net operating surplus 5) Gross operating surplus

32. Gap between national savings and gross domestic investment is

- 1) Trade account balance of BOP 2) Service account balance of BOP
3) Primary income account balance of BOP 4) Secondary income account balance of BOP
5) Total of all above mentioned balance

33. Which of the following should not added when calculating the gross domestic product?

- 1) Transport services provided by the husband to his wife
2) Collected foods from forest
3) Provided rent for own resident
4) New bus purchased by the government to defense academy
5) Purchased motor bicycle for private purpose

34. Marginal propensity to consume (MPC) of an economy is 0.1, if increase tax income by Rs 1000 ,what is the effect on production of an economy in the third round?

- 1) Equilibrium quantity decreases by Rs 810
2) Equilibrium quantity increases by Rs 810
3) Equilibrium quantity decreases by Rs 729
4) Equilibrium quantity increases by Rs 729
5) Equilibrium quantity decreases by Rs 900

35. Macroeconomic information of a hypothetical economy is given below.

National Income at constant price	10000
Exports	6000
Import price index	80
Export price index	120
Import	4000

What is real national income of an Economy?

- 1) Rs 7500 2) Rs 12500 3) Rs 10041 4) Rs 13500 5) Rs 6000

36. Macroeconomic information are given below

Gross domestic product	24200
Government Expenditure	8000
Gross domestic investment	12000
Net exports	- 4000

Which of the following statement is correct related to above information

- 1) Domestic saving is 16000
 - 2) Gross domestic expenditure is greater than gross domestic product
 - 3) House hold consumption expenditure is Rs 12000
 - 4) Gross domestic expenditure is Rs 28000
 - 5) All of the Above are correct
37. Assume Average propensity to save of given economy is 0.25, autonomous savings is zero and added value of capital and government expenditure is 1000. In this economy
- 1) Average propensity consume is greater than marginal propensity to consume
 - 2) National equilibrium income is - 4
 - 3) Tax multiplier is - 4
 - 4) Savings Rs.2000
 - 5) Marginal propensity to consume is greater than average propensity to consume
38. Which of the following cause for increasing national equilibrium income?
- 1) When aggregate expenditure of an economy exceeds aggregate output
 - 2) When output equals to expenditure
 - 3) When withdrawal increase than injections
 - 4) When withdrawals equals to injections
 - 5) When aggregate supply increase than aggregate demand
39. Consumption equation of an economy is given below
- $$C = 100 + 0.8Y$$
- If investment increase by Rs 1000 , what is effect on savings
- 1) Increase by Rs 5000 2) Decrease by Rs 5000 3) Increase by Rs 1000
 - 4) Decrease by Rs 1000 5) Increase by Rs 1,900
40. If government expenditure increases by Rs 1000 and Tax income increases by Rs 1000 , What is effect on an economy?
- 1) Withdrawal equals to injections
 - 2) National equilibrium income remains constant
 - 3) Aggregate demand remains constant
 - 4) National equilibrium income increase by Rs 1000
 - 5) None of the above
41. Demand deposit Rs. 50000 got by banking system. Reserve ratio is 20% and if there is no excess reserve in bank, what is total deposit of banking system?
- 1) Rs 50000 2) Rs 20000 3) Rs 250000 4) Rs 500000 5) Rs 40000

42. Currency held by the public in given an economy is Rs 300 million , currency held by the commercial bank is Rs 100 million , demand deposits of commercial bank is Rs. 900 million and reserve of commercial bank Rs 100 million. What is money multiplier?
 1) 2.0 2) 2.2 3) 2.4 4) 3 5) 3.3
43. What is average inflation rate in 2018 according to National consumer price index (2013 =100) ?
 1) 6.4% 2) 5.4% 3) 4.3% 4) 4.5% 5) 9.2%
44. Rs 100 value of Treasury bills published to Rs 90. If interest rate in market is 10%, what is market price of treasury billss?
 1) Rs 100 2) Rs 90 3) Rs 110 4) Rs 80 5) Rs 120
45. Even though yearly money supply decreases in a given an economy , nominal value of gross national product and price levels remains constant. Which of the following effects of given instances?
 1) Fall in real gross national product 2) Increase in velocity of money
 3) Increase in real national product 4) Increase in demand for money
 5) Decrease in interest rate
46. Which of the following tax principle does not give any burden for consumer or producer when imposes tax
 1) Equity 2) Economies 3) Efficiency
 4) Stability 5) Neutrality
47. The following information of a given industry is given below.
- | | |
|---------------------|-----|
| Private benefits | 100 |
| Private expenditure | 100 |
| External benefits | 110 |
| External costs | 110 |
- Which of the following is correct related to output levels of an industry?
 1) From in private scenarios, socially optimum production equals to optimum output.
 2) Recent production level is higher than socially optimum output level
 3) From in private scenarios, Recent production level is higher than socially optimum output level
 4) Socially optimum output level can be achieved By reducing recent output level
 5) All of the above are correct
48. Which of the following is main objective of blue green budget for 2018?
 1) Economy can be developed by making progress in agriculture sector
 2) Economy can be developed by making progress in agriculture sector and sea resources
 3) Economy can be developed by making improvement in industrial sector with environment protection
 4) Economy can be developed by increasing usage of sea resources and protecting environment
 5) Economy can be developed by increasing usage of sea resources and protecting the ocean
49. What is Overall budget deficit as percentage of GDP in 2018 ?
 1) 5.7% 2) 7.6% 3) 5.4% 4) 5.3% 5) 4.8%
50. What is Public debt ratio as a percentage of GDP in 2018 ?
 1) 79.3% 2) 44.2% 3) 82.9% 4) 63.7% 5) 59.2%



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II

Economics - II

Time : 3 hours

Part – II Section – A

01. i)

- a) Give main features of market Economy. (3 marks)
- b) A basic criterion for functioning of a market economy is Price Mechanism. What are functions of price mechanism? (2 marks)
- ii) Explain ‘Economic freedom is a new concept in economic system’. (4 marks)
- iii) Explain economic recession and economic decline using with production possibility curve. (4 marks)
- iv) Explain how the following events effect on production possibility frontier of Sri Lanka using with appropriate graph.
 - a) Tsunami destruction in 2004
 - b) Removed barriers for fish export on Sri Lanka by the European Union.
 - c) Economic instability seen as barrier to efficient decision making activity in an economy (3 marks)
- v)
 - a) If factor ownership does not define correctly explain why it forms market inefficiency.
 - b) Explain how to achieve economic efficiency using with PPC? (4 marks)

02.

- i) Distinguish between individual demand and market demand. What are the factors influencing on them? (4 marks)
- ii) “Law of demand can be explained using with theory of demand”. What are the determinants of law of demand? (3 marks)
- iii) Explain why point elasticity of demand differs from one point to the point on the demand curve of downward sloping from left to right. ()
- iv) Demand for a particular good would be zero at less income level or high income level. Do you agree this statement? Explain using with graph. ()
- v) Demand equation and supply equation of a particular good are given below.

$$Qd = 60 - 10P$$

$$Qs = 0 + 10P$$

If the government has decided to impose maximum price as Rs 2 per unit on the particular good, what are an economic effects of it? (4 marks)

03. i)

- a) State three types of law of return to scale. (2 marks)
- b) What are the decisions can be taken from the law of diminishing marginal returns? (2 marks)

c) Explain the following concepts.

1. Accounting Cost
2. Economic Cost

Q	0	10	20	30	40
TC	120	180	200	210	225

What is the output level according to the above table when average variable cost occur minimum.

ii)

- a) Distinguish between economic profit and economic rent. (2 marks)
- b) Distinguish between normal profit and abnormal profit. (2 marks)

iii) When output of a given firm is zero, Total cost is Rs 400 million and total revenue is Rs 1000 million, total variable cost is Rs 800 million. In this situation do you consider will this firm continue their production? Give the reasons? (4 marks)

iv) What is meant by law of profit maximizing? (4 marks)

04.

- i) "Classification of economy as pure capitalist and pure socialist economies is a theoretical concept", Analyze given statement. (5 marks)
- ii) The following demand schedule is given demand information of three consumers.

Price	Qd for A	Qd for B	Qd for C
1	16	15	19
2	12	12	16

- a) Find demand equation of consumer A, B and C.
 - b) Find a market demand equation. (5 marks)
- iii) When MR equals to MC, Profit would be maximized in any market structures But When P equals to MC, profit would be maximized in perfect competitive market. Explain. (5 marks)
- iv) Explain, when calculate GDP in income approach, expenditure approach and production approach, Value of Gross domestic product would be equal. (5 marks)

05.

- i) Explain the following using with examples
 - a) Multiple counting problem
 - b) Value added method
 - c) Value of final good method (5 marks)
- ii)
 - a) What is meant by hidden economy?
 - b) What are the actions to be taken by the government to reduce quantity of gray economy? (5 marks)
- iii) Value of gross domestic product of given an economy in a given period is Rs 100 million and gross national product is Rs.100 million. Is it possible? Give causes supporting for your answer. a (5 marks)

- iv) National accounting information of an economy are given below including direct tax but does not provided subsidies.

	Rs in million
Value of exports	30
Government budget deficit	03
Net investments	20
Gross investments	80
Government purchases	110
GDP at current price	600
Private consumption	400
Net primary income from rest of the world	100

Enumerate the following.

- a) Capital consumption
 - b) Net domestic product
 - c) Value of import
 - d) Private savings
- (5 marks)

Section – B

06.

- i) Macroeconomic information of an open economy are given below (Value in million Rs), What is value of government purchases?

Savings(S)	800	
Tax Income (T)	500	
Import Expenditures (M)	300	
Export earnings(X)	400	
Investment expenditures	750	(4 marks)

- ii) Consumption equation of an economy is $C=400+2/3Y$. What is income level at saving is zero. (4 marks)

- iii) Hypothetical Macroeconomic information are given below.(Value in million rupees).

$$C = 200 + 0.8y_d \text{ (Consumption Equation)}$$

$$T = \text{Rs } 50 \text{ million (Tax Income)}$$

$$I = \text{Rs } 60 \text{ million (Investment Expenditure)}$$

$$G = \text{Rs } 30 \text{ million (Government Expenditure)}$$

How much money to be invested to increase output as Rs 1600 million. (4 marks)

- iv) In question no (iii) , If the government has decided to provide subsidy as Rs 100 million instead of the government imposes tax, How much expenditure to be increased by the government to increase output level as Rs 2000 million. (4 marks)

- v) The following macroeconomic information of an economy are given below

$$C = 140 + 0.75y_d \text{ (consumption function)}$$

$$T = \text{Rs } 50 \text{ million (Tax Income)}$$

$$G = \text{Rs } 80 \text{ million (Government expenditures)}$$

$$I = \text{Rs } 80 \text{ million (Investment Expenditures)}$$

Estimate private savings using given information. (4 marks)

07. A hypothetical balance sheet of a commercial banking system is given below. (Value in Million Rupees)

Statutory reserve rate 10%

Liabilities	Amount	Assets	Amount
		Reserves	50 000
Demand Deposits	200 000	Securities	55 000
Shareholder capital	50 000	Loans	145 000
	250 000		250 000

- i)
- a) Have this bank any excess reserve?
What is the value of excess reserve? (2 marks)
 - b) What is the maximum amount of loans that this bank can make? (2 marks)
 - c) How will the bank's balance sheet appear before and after cheques drawn for the entire amount of the loans have been cleared against this bank? (3 marks)
 - d) If the required reserve rate is 20% calculate the following
 - ◆ Excess reserve
 - ◆ Amount of new loans
 - ◆ Deposit multiplier
- ii) What are the limitation factors of ability of credit creation of commercial bank? (4 marks)
- iii) What are the economic effects of increasing in interest rate? (4 marks)

08.

- i) What are the limitations of barter economic system? (4 marks)
- ii) Distinguish following types of money
 - a) currency and bank money
 - b) Near money and money substitutes (4 marks)
- iii) Explain speculative demand for money using with price of treasury bonds? (4 marks)
- iv) Explain the components of money base according to assets and liabilities of the central bank. (4 marks)
- v) Briefly explain the following functions of central bank.
 - a) Controlling of monetary policy
 - b) Management of official foreign reserves
 - c) Act as a banker and financial agent to the government (4 marks)

09.

- i) What is meant by government fiscal policy? (2 marks)
- ii) What are the main objectives of imposing taxes? (2 marks)
- iii) What are the fractures of good tax system (3 marks)
- iv) Distinguish between legal tax compliance and economic tax compliance. (2 marks)
- v) Explain the Structure of rate of tax. (2 marks)
- vi) Explain the concepts of inflation gap using with graph. (2 marks)
- vii) Briefly explain the following
 - a) Current account balance
 - b) Primary account balance
 - c) Overall budget deficit
 - d) Net cash deficit (4 marks)

10.

- i) What is meant by government failure? (4 marks)
- ii) Briefly explain the following
 - a) Public goods and common resource
 - b) Private goods and free goods
 - c) Demerit goods and bad goods (6 marks)
- iii) What are the instruments of fiscal policy? (2 marks)
- iv) Explain how fiscal policy can be used to establish social justice? (4 marks)
- v) State the components of non-tax revenue of Sri Lanka. (4 marks)