

## G.C.E. (A/L) Support Seminar - 2014

**Economics I**

**Two hours**

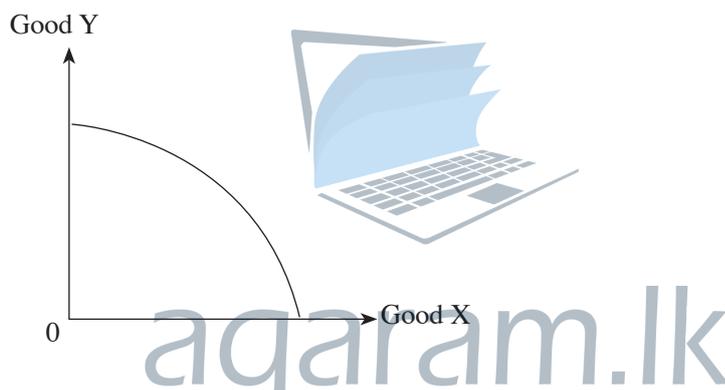
Important :

- ★ Answer all the questions.
- ★ Select the correct or the most appropriate answer.

**01.** Which of the following statements outlines a microeconomic theory?

- (1) The increase in input prices can cause the general price level to increase.
- (2) Employment would decrease when the overall level of production decreases.
- (3) The decrease in interest rate affects an increase in money demand.
- (4) When money supply increases, the interest rate will decrease.
- (5) When the marginal return diminishes, marginal cost will increase.

**02.** The following is a production possibilities frontier of an economy.



Which of the following statements best describes the above production possibilities frontier?

- (1) Homogenous factors have been used up in the production process.
  - (2) Identical technique has been employed to produce the products.
  - (3) Heterogeneous factors have been used up to produce the products.
  - (4) The productivity of factors has changed.
  - (5) Resources that were used in a certain industry can be used for the other industry in the same manner.
- 03.** One of the functions performed by price in a centrally planned economy is,
- (1) Directing the central planning authority to identify what commodities to produce.
  - (2) Providing incentives for the producers by allowing them to make profits.
  - (3) Rationing scarce resources among alternative uses.
  - (4) Being a tool to formulate economic policies.
  - (5) Determining the distribution of factor incomes among the households.
- 04.** “There is a consumer sovereignty in a market economy”. This statement can be proven with,
- (1) The market supplies the products demanded by consumers.
  - (2) Government guides to ensure the supply of essentials demanded by the consumers.
  - (3) Having the freedom with the labourer to mobilize his labour as he wishes.
  - (4) Government has been controlling the prices to protect the consumer.
  - (5) The market has a natural monopoly situation.

- 05.** A condition that can be expected to exist at every point on a production possibilities frontier,  
 (1) Efficiency in allocation of resources (2) Economic efficiency  
 (3) Efficiency in production (4) Price stability  
 (5) Equality in the distribution of output
- 06.** The income effect that affects the quantity demanded of the product in consideration to decrease when the price of that product increases is,  
 (1) Consumers switch to relatively cheaper products.  
 (2) Increase in real income as the price of the product increases.  
 (3) Decrease in real income as the price of the product increases.  
 (4) Decreasing the demand for the product, with the expectation that the price will decrease in the future.  
 (5) Decrease in demand due to the decrease in nominal income as the price of the product increases.
- 07.** The table below shows how the business revenue changes with the change in the prices of two products.

Product	Increase in the price	Change in business revenue
A	10%	5%
B	20%	-10%

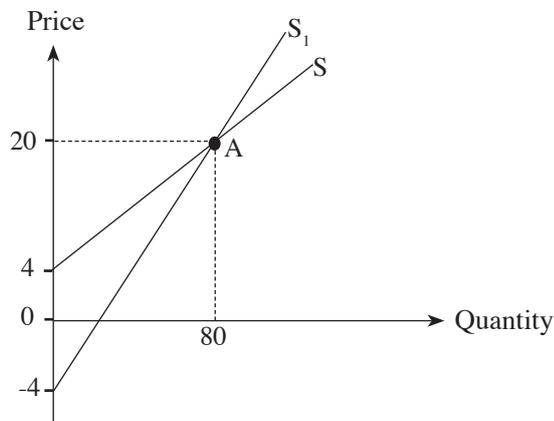
Identify the price elasticity of demand for good A and good B using the above mentioned information.

	Price elasticity of demand for good A	Price elasticity of demand for good B
(1)	Inelastic	Unitary elastic
(2)	Unitary elastic	Elastic
(3)	Inelastic	Elastic
(4)	Perfectly elastic	Perfectly elastic
(5)	Elastic	Inelastic

- 08.** The supply function for a certain product is given by  $Q_s = -30 + 5P$ . Which of the following is correct in explaining the behavior of price elasticity of supply of this product?

Price elasticity of supply	The change in the coefficient of Price elasticity of supply as the price increases
(1) Less than one	Increases
(2) Less than one	Decreases
(3) Greater than one	Decreases
(4) Greater than one	Increases
(5) Unitary elastic	Remains constant

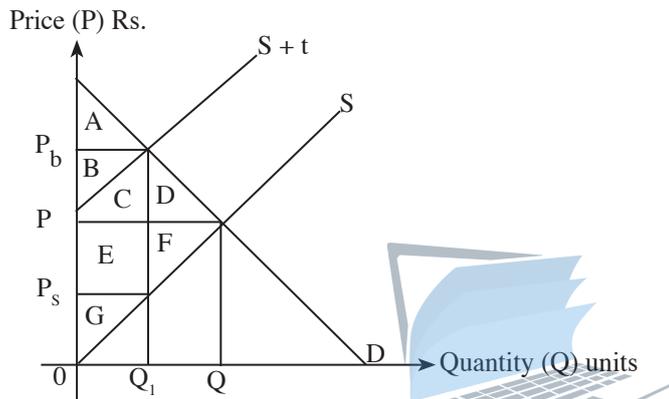
**09.**



According to the above illustration the price elasticity of supply for S and S1 supply curves are at point A respectively are,

- (1) 0.8 and 1.2 (2) 0.8 and 1.5 (3) 1.0 and 0.8  
 (4) 1.25 and 0.5 (5) 1.25 and 0.8

10.  $Q_d = 30 - 2P$   
 $Q_s = 14 + 2P$   
 The value that is obtained for consumer surplus when it is calculated by using the above equations is,  
 (1) Rs.18                      (2) Rs.22                      (3) Rs.44                      (4) Rs.121                      (5) Rs.242
11. The following are the excess demand equation and the supply equation for a certain product.  
 $Q_{ed} = 28 - 7P$   
 $Q_s = -8 + 6P$   
 The equilibrium price and equilibrium quantity of this product respectively are,  
 (1) Rs.4 and 16 units                      (2) Rs.4 and 56 units  
 (3) Rs.7 and 20 units                      (4) Rs.16 and 34 units  
 (5) Rs.28 and 56 units
12. The following is a situation that describes the imposition of a unit tax on a certain product.



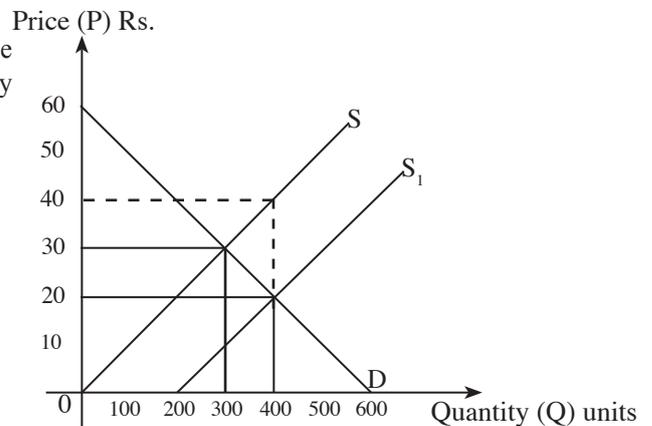
Which of the following describes the outcomes after the imposition of the tax?

	Economic surplus after tax	Government tax revenue	Deadweight loss
(1)	A + G	B + C + E	D
(2)	A + D	B + C	D + F
(3)	D + F	B + C + E	D + F
(4)	A + G	B + C + E	D + F
(5)	G + F	B + C	F

13. The following graph explains the situation of the provision of a unit subsidy by the government on a certain product?

Which of the following answers correctly shows the values of the government expenditure on the subsidy and the deadweight loss?

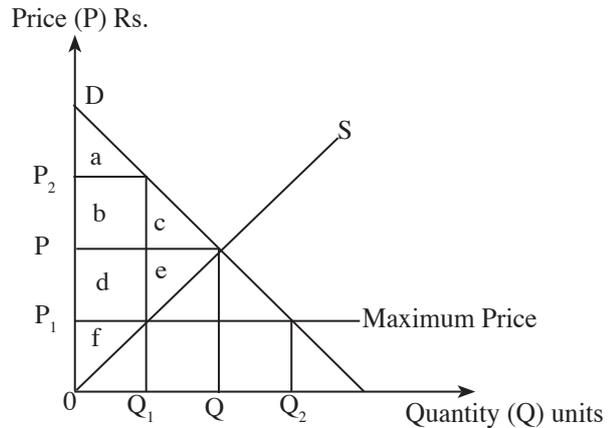
	Government expenditure on subsidy (Rs.)	Deadweight loss (Rs.)
(1)	4000	1000
(2)	8000	500
(3)	4000	500
(4)	6000	1000
(5)	8000	1000



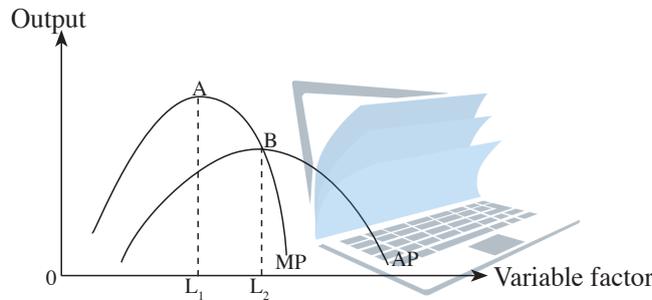
14. The following illustration explains the situation of an imposition of price ceiling for a certain product by the government.

If  $P_1$  price is implemented successfully, then B and D values

- (1) Will be a part of producer surplus
- (2) Will be added to the producer's profits
- (3) Will be a part of consumer surplus
- (4) Will be added to the government revenue
- (5) Will be a part that the producer loses



15. The following is the graph that explain how the marginal and average returns change as more of the variable factor is used in the short run,

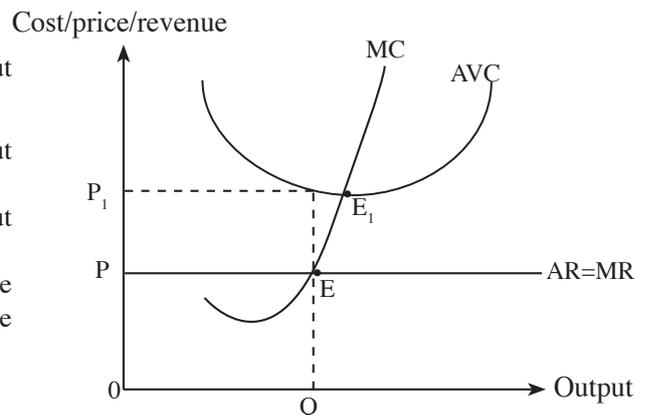


The answer that correctly shows the impact on short run average variable cost and short run marginal cost as the variable factor is increased from  $L_1$  to  $L_2$  is,

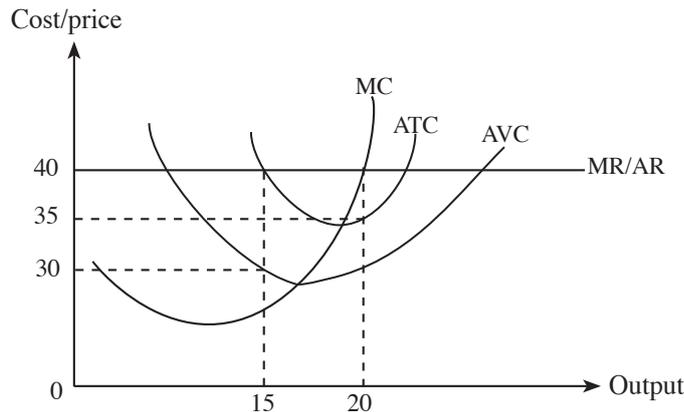
	Average variable cost	Marginal cost
(1)	Decreases	Decreases
(2)	Decreases	Increases
(3)	Increases	Increases
(4)	Increases	Decreases
(5)	Increases	Remains constant

16. With which of the following statement do you agree in accordance with the above drawn illustration?

- (1) The firm maximizes its profits at the output level at point  $E_1$
- (2) The firm makes an economic profit at the output level at point E
- (3) The firm makes an economic loss at the output level at point E
- (4) The short run supply curve of the firm is the upward sloping part of the marginal cost curve above point E
- (5) The minimum supply price of this firm is P.



17. The diagram below shows the cost and revenue analysis of a perfectly competitive firm.



If the price at which the above firm sells its output equals Rs.40, which of the following answer is correct?

	Profit maximizing output	Economic profit	Total fixed cost	Total variable cost
(1)	15	75	150	500
(2)	15	75	150	550
(3)	20	100	150	550
(4)	20	100	200	450
(5)	20	100	200	700

18. The components that are included in the utilization of resources are,

- (1) The sum of gross domestic expenditure and imports of goods and services
- (2) The sum of gross domestic product and exports of goods and services
- (3) The sum of total consumption expenses and exports of goods and services
- (4) The sum of gross domestic product and imports of goods and services
- (5) The sum of gross domestic expenditure and exports of goods and services

19. The value of rubber latex output of an economy is Rs.10000 million. The value added in the output of rubber sheet is Rs.18000 million. If these inputs are used up in producing footwear the sum of all these values would be Rs.72000 million. What is the total value addition of the footwear production process?

- (1) Rs.56000 million
- (2) Rs.44000 million
- (3) Rs.26000 million
- (4) Rs.18000 million
- (5) Rs.10000 million

20. The following are some information pertaining to the Balance of Payments of an economy.

Item	US \$ million
Trade balance	-9409
Balance of the services account	1250
Balance of the income account	-1148

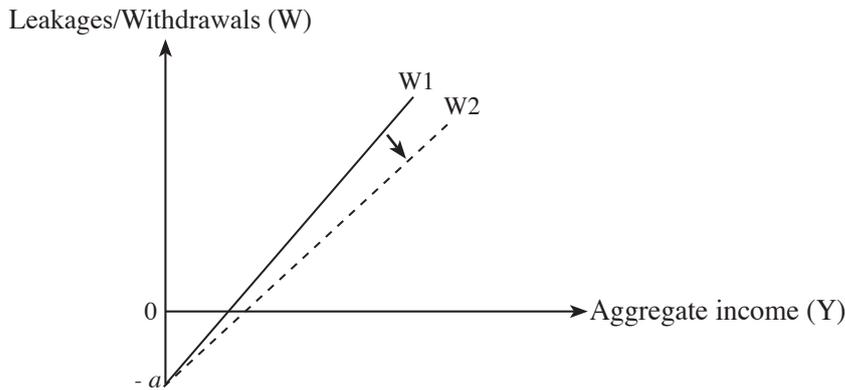
Which of the following shows the impact on national accounts of the information mentioned above?

- (1) Gross National Product has exceeded Gross Domestic Product
- (2) Gross Domestic Product has exceeded Gross Domestic Expenditure
- (3) The expenditure on Gross National Product has exceeded Gross Domestic Expenditure
- (4) Gross Domestic Product has fallen below Gross Domestic Expenditure
- (5) Gross Domestic Product equals Gross Domestic Expenditure

21. The consumption function of a closed economy has been given by  $C=100+0.8Y_d$ . Which of the following is correct in showing the consumption function when the government adjusts an autonomous tax of Rs.100 and autonomous transfers of Rs.80?

- (1)  $C=84+0.8Y$
- (2)  $C=84+0.8Y_d$
- (3)  $C=104+0.8Y$
- (4)  $C=116+0.8Y$
- (5)  $C=120+0.8Y$

22. The following graph shows how the leakages function in a closed economy changed.

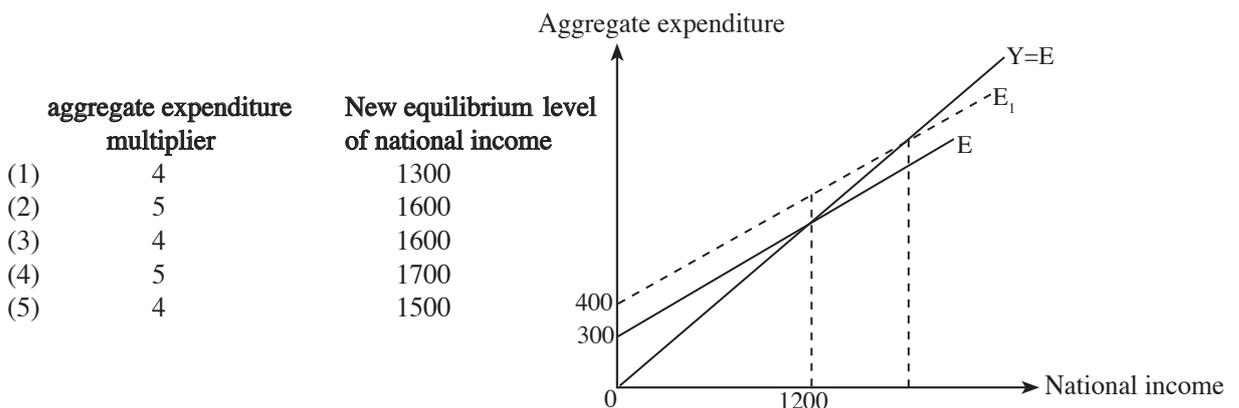


Which of the following combinations of the answer is correct in describing the impact on the aggregate expenditure multiplier and equilibrium level of national income after the change in the leakages function?

**aggregate expenditure multiplier      equilibrium level of national income**

- (1) Increases      Decreases
- (2) Decreases      Increases
- (3) Increases      Increases
- (4) Increases      Remains constant
- (5) Decreases      Decreases

23. The following illustration depicts how the aggregate expenditure function shifted up while marginal propensity to consume remains constant. Which of the answers correctly shows the expenditure multiplier and the new equilibrium level of income at  $E_1$  aggregate demand?



24. The aggregate demand that is required to maintain the potential level of output has been given by  $E=1000+0.8Y$ . If the actual aggregate demand increases to  $E=1200+0.8Y$  would cause,

- (1) The real output to increase and unemployment gap to arise.
- (2) The real output to decrease and unemployment gap to arise.
- (3) The real output to increase and inflationary gap to arise.
- (4) The real output remains constant and inflationary gap to arise.
- (5) The real output to remains constant and deflationary gap to arise.



32. Suppose a person deposited Rs.2400 in a commercial bank. Assume that the commercial banking system operates with the statutory reserve rate of 20%. The maximum amount of loan that can be created by the banking system using this deposit would be,

- (1) Rs.24000 (2) Rs.14400  
 (3) Rs.12000 (4) Rs.9600  
 (5) Rs.2400

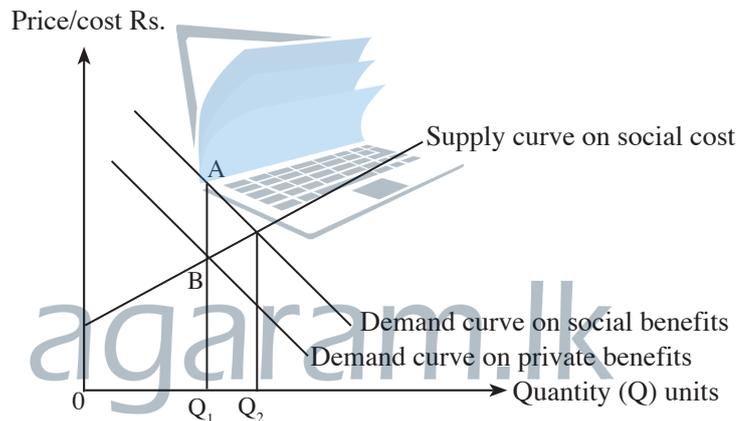
33. The following are some commodities.

- A. Atmosphere B. Parks C. National defense  
 D. Environmental conservation E. Sea shore F. High ways

Which of the following answers has classified the above products under public goods and semi-public goods?

- |     | <b>Public goods</b> | & | <b>Semi-public goods</b> |
|-----|---------------------|---|--------------------------|
| (1) | A, B, C             |   | D, E, F                  |
| (2) | A, B, E             |   | C, D, F                  |
| (3) | A, C, D             |   | B, E, F                  |
| (4) | A, D, E             |   | B, C, F                  |
| (5) | A, D, F             |   | B, C, E                  |

34. The following illustration shows the externality adjusted market outcome that demonstrates the optimum level of output.



What is meant by  $(Q_2-Q_1)$  and  $(A-B)$  in the above illustration?

	$(Q_2-Q_1)$	$(A-B)$
(1)	Under consumption in the market	External benefit
(2)	Over consumption in the market	External benefit
(3)	Over production in the market	External cost
(4)	Under consumption in the market	External cost
(5)	Over consumption in the market	External cost

35. Suppose the tax revenue of the government in a certain year changes by 48% whereas the annual change in the gross domestic product at the market price was 60%. What is the buoyancy coefficient of the government tax revenue?

- (1) 0.08 (2) 0.8 (3) 1.25 (4) 1.5 (5) 8

36. Which of the following best describes the counter cyclical fiscal policy of the government?

- (1) When there is an economic recession, government expenses must be decreased and taxes must be increased  
 (2) When there is an economic recession, both government expenses and taxes must be increased  
 (3) When there is an economic expansion, both government expenses and taxes must be decreased  
 (4) When there is an economic expansion, government expenses must be increased and taxes must be decreased  
 (5) When there is an economic recession, government expenses must be increased and taxes must be decreased

37. Which of the following that can be identified as the main source that had been used by the government to obtain more of domestic debt in recent years?
- (1) Treasury bills
  - (2) Sri Lanka Development Bonds
  - (3) Rupee securities
  - (4) Treasury Bonds
  - (5) Central Bank Advances

38. The table below shows the labour productivity in two countries in producing two products.

Good	Country x	Country y
Textiles	10	03
Wheat	20	12

Which of the following shows the terms of trade that would benefit both of the countries in international trade according to the above information?

- (1) 1 unit of textiles = 3 units of wheat
  - (2) 1 units of wheat = 1.5 units of textiles
  - (3) 1 unit of wheat = 2 units of textiles
  - (4) 1 unit of textiles = 1.5 units of wheat
  - (5) 1 unit of wheat = 3 units of textiles
39. The imported price of a pair of shoes traded in Sri Lanka is Rs.500. However the domestic producers of Sri Lanka too produce the same pair of shoes by using imported materials worth Rs.300. If the government imposes a tariff of 25% of an imported pair of shoes, what would be the effective rate of protectionism?
- (1) 16%
  - (2) 40%
  - (3) 50%
  - (4) 62.5%
  - (5) 67.5%
40. The main pair of factors that determines the 'import purchasing power' of a country is,
- (1) volume of exports, the foreign exchange rate
  - (2) Value of exports, government policies
  - (3) volume of imports, import prices
  - (4) Trade balance, foreign exchange rate
  - (5) foreign currency receipts, the prices of imports
41. 'Employee compensation' paid by foreign countries is recorded in the Balance of Payment as an entry of,
- (1) Goods and services account
  - (2) Income account
  - (3) Trade account
  - (4) Foreign current transfer account
  - (5) Foreign capital transfer account
42. In which of the elasticity conditions that a devaluation of currency can cause an improvement in the trade balance? For the price elasticity of demand for exports and price elasticity of demand for imports should respectively be,
- (1) 0.5 and 0.4
  - (2) 0.6 and 0.2
  - (3) 0.2 and 0.4
  - (4) 0.7 and 0.5
  - (5) 0.3 and 0.3
43. Which of the following must continuously expand to consider it as an economic growth?
- (1) Gross Domestic Product
  - (2) Gross National Product
  - (3) Real National Product
  - (4) Real National Product relative to population growth
  - (5) Potential production capacity
44. If a country aims at attaining an economic growth of 8% per annum and its capital-output ratio has been given by 5, what would be the investment ratio that needs to be maintained by this country?
- (1) 20%
  - (2) 30%
  - (3) 35%
  - (4) 40%
  - (5) 50%

45. When the demographic trends of Sri Lanka are examined, which of the following is correct in showing the recent changes in the natural rate of population growth and net migration rate?

	<b>Natural rate of population growth</b>	<b>Net migration rate</b>
(1)	Has decreased	Has decreased
(2)	Has decreased	Has increased
(3)	Has increased	Has increased
(4)	Has increased	Has decreased
(5)	Has decreased	Has become zero

46. Which of the factors needed for a better standard of living in enumerating human development?

- (1) Freedom to choose, security, favorable social relationships
- (2) Good health status, things necessary for a better life, good governance
- (3) Freedom to choose, good governance, security
- (4) Favorable social relationships, security, environmental sustainability
- (5) Environmental sustainability, good governance, freedom to choose

47. In accordance with the 2009/10 statistics, the district with the highest poverty rate is,

- (1) Vavunia, (2) Batticaloa (3) Badulla (4) Monaragala (5) Mullative

48. The following are some indices used in measuring economic development.

- A - Per capita gross national product
- B - Purchasing power parity adjusted per capita gross domestic product
- C - Infant mortality rate
- D - Life expectancy at birth

Among them, which sub-indices are used in compiling Human Development Index?

- (1) A and C (2) A and D (3) B and C (4) B and D (5) C and D

49. Which of the following sectors that provided the highest contribution to the gross domestic product of Sri Lanka in year 2012?

- (1) Manufacturing
- (2) Construction
- (3) Wholesale and retail trade
- (4) Hotels and restaurants
- (5) Banking, insurance and real estate

50. If the Lorenz curve lies on the equal income line, what will be the Gini coefficient for this economy?

- (1) Infinity (2) 1.5 (3) 1 (4) 0.5 (5) 0

\* \* \*

## G.C.E. (A/L) Support Seminar - 2014

**Economics II**

**Three hours**

Important :

- ★ Select at least two questions from each of the parts and answer only 05 questions.

### Part I

1. (i) “Alternative economic systems can be identified in accordance with the various criteria used to classify economic systems”. Prove the above statement by naming the criteria and the alternative economic systems. (06 marks)
- (ii) Explain how the problem of distribution of the output is solved by alternative economic systems. (03 marks)
- (iii) For an economy which has currently attained the efficiency in production, the factor requirement to produce industrial goods decreased in its production process. Explain this situation using a production possibilities frontier. (04 marks)
- (iv) What are the salient characteristics of a mixed economic system? (03 marks)
- (v) “The transition of many countries that earlier had the central planning mechanism to market system implies that the central planning mechanism cannot be used as a method of solving the basic economic problems”. What are the arguments that can be provided to support this statement? (04 marks)
2. (i) What is meant by the law of demand? (02 marks)
- (ii) What are the situations where a positive relationship can exist between the price of a certain product and its quantity demanded? (02 marks)
- (iii) Identify the product categories described by each of the following statements.
  - a) The products which have the coefficient of income elasticity of demand which is less than 1
  - b) The products which have the coefficient of income elasticity of demand which exceeds 1
  - c) The products which have the coefficient of cross price elasticity of demand which takes a positive value
  - d) The products which have the coefficient of cross price elasticity of demand which takes a negative value(04 marks)
- (iv) The following are the market demand and market supply equations that represent a certain product.  
 $Q_d = 600 - 10P$   
 $Q_s = 10P$   
Assume that the government implements a price support system where it agrees to buy the surplus output with the guaranteed price of Rs.50 for this product. Calculate the values of the following.
  - i. Equilibrium price and equilibrium quantity (02 marks)
  - ii. Consumer outlay and producer revenue if the government purchases the surplus output (02 marks)
  - iii. The change in the consumer surplus (02 marks)
  - iv. The change in the producer surplus (02 marks)
  - v. The cost incurred by the government to buy the surplus output (02 marks)
  - vi. The value of the deadweight loss (02 marks)
3. (i) What are the laws that govern the behaviour of output with inputs in the short run and long run production processes? (04 marks)
- (ii) Explain the behaviour of short run average variable cost and long run average cost separately by listing the reasons. (04 marks)
- (iii) Explain the nature of the demand curves faced by a firm in a perfectly competitive market and by a firm in a monopoly market? (04 marks)
- (iv) In what situation, a perfectly competitive firm decides to shut down its operations in the short run? Explain the answer with a suitable graphical illustration. (04 marks)
- (v) Distinguish between a monopolistic competitive market and a monopoly market. (04 marks)

4. (i) How is the value of the welfare services provided by the government included in the national accounts? (03 marks)
- (ii) The following are the national income statistics for a hypothetical economy for a certain year. All figures are in Rupees billion.
- |  |      |
|--|------|
| Gross domestic expenditure                   | 1800 |
| Gross domestic product                       | 1200 |
| Net foreign factor income                    | -800 |
| Net foreign current transfers                | 900  |
| Capital depreciation                         | 50   |
| Net indirect taxes                           | 120  |
| Consumption expenses                         | 600  |
| GDP deflator (2002=100)                      | 120  |
| Real Gross domestic product in the year 2012 | 900  |
- Enumerate the values of the following.
- a) Net exports (01 mark)
- b) Disposable national income (01 mark)
- c) Gross Domestic savings (02 mark)
- d) National savings (01 mark)
- e) Current account balance of the Balance of Payments (01 mark)
- f) Economic growth rate (02 mark)
- (iii) What are the items that are excluded when the national accounts are compiled in the expenditure approach in order to prevent the error of double counting? (03 marks)
- (iv) "Both the income approach and the value added system produce the same answer for the Gross Domestic Product". Do you agree with this statement? Explain your answer. (03 marks)
- (v) Distinguish between the Real National Product and Real National Income. (03 marks)
5. (i) Explain the concepts of marginal propensity to save and marginal propensity to consume and show that their sum in a simple economy must be equal to one. (04 marks)
- (ii) What is meant by the equilibrium level of national income? Which conditions that must be satisfied for it in a closed economy? (04 marks)
- (iii) Explain the determination of the equilibrium level of national income in a simple economy using a graphical illustration of "Income = Expenditure" method. (04 marks)
- (iv) A closed economy is characterized by the savings function;  $S = -180 + 0.2 Y_d$  together with investments of 120 and government purchases of 160 and autonomous taxes of 100. Estimate the values of the following.
- a) Equilibrium level of national income (02 marks)
- b) The values of tax multiplier and government spending multiplier (02 marks)
- (v) Explain the concepts of "inflationary gap" and "unemployment gap" separately. (04 marks)

## Part II

6. (i) List out the functions of money. (04 marks)
- (ii) A commercial bank that operates within a banking system that follows a statutory reserve requirement of 10% has total deposits of Rs.1800 million, reserves of Rs.200 million and loans made worth Rs.1600 million.
- a) Enumerate the excess reserves of the commercial bank. (02 marks)
- b) Construct the balance sheet of the commercial bank after it makes loans to the full amount of its excess reserves. (02 marks)
- c) Construct the balance sheet of the commercial bank after the clearing of the cheques that were written by the parties who borrowed. (02 marks)
- (iii) a) What are the constituents of the monetary base? (02 marks)
- b) Explain why the money multiplier of an economy is either equals or greater than 1. (02 marks)
- (iv) Describe how the Central Bank implements the monetary policy tools as an expansionary monetary policy. (03 marks)
- (v) List the main factors that cause the cost push inflation. (03 marks)

7. (i) What is meant by the 'Public Private partnership' in providing infrastructure facilities? What are the main advantages of it? (04 marks)
- (ii) "The main aim of taxation is to accumulate resources". What are the other aims of the government to achieve by imposing taxes? (04 marks)
- (iii) What are the main components of government expenditure according to the economic classification? (04 marks)
- (vi) The following are budgetary statistics for a hypothetical government for a certain year. All figures are in Rupees million.
- |                                     |       |
|-------------------------------------|-------|
| Government revenue                  | 15000 |
| Recurrent expenditure               | 18500 |
| Interest payments                   | 500   |
| Capital expenditure and net lending | 7500  |
| Foreign grants                      | 2000  |
| Current transfer expenditure        | 3000  |
- Enumerate the values of the following using above information.
- a) Current account balance of the budget
- b) Overall balance of the budget
- c) Primary account balance
- d) Government consumption expenditure (04 marks)
- (v) What is meant by the "debt sustainability" of the government? Show the recent changes in the index that is used to evaluate it. (04 marks)
8. (i) a) Distinguish between the "absolute advantage" and "comparative advantage" in international trade. (03 marks)
- b) What are the assumptions that the law of comparative advantage is based on? (02 marks)
- (ii) a) What are the arguments 'for' the imposition of the barriers for international trade? (02 marks)
- b) What are the non-tariff barriers? (02 marks)
- (iii) Why are Foreign Direct Investments more important than the Portfolio Investments? (04 marks)
- (iv) If a country has been having a deficit in the Balance of Payments over a long period, which recommendations that can be made to control it? (03 marks)
- (v) Which major recent changes that you can identify in the foreign loans of international finance of Sri Lanka? (04 marks)
9. (i) a) What are the costs of economic growth? (03 marks)
- b) What is meant by economic development? (04 marks)
- (ii) "Human development is the opposite extreme of human poverty". Explain this statement. (04 marks)
- (iii) a) What are the **three** dimensions of the Human Development Index? (03 marks)
- b) What are the main deprivation categories used in compiling Multi-dimensional Poverty Index? (03 marks)
- (iv) What were the policy efforts made by the government to minimize the regional disparities in Sri Lanka during the last decade? (03 marks)
10. (i) Name the index compiled by the Central Bank of Sri Lanka to measure the regionally balanced growth of Sri Lanka and examine the trends of that index in the years of 2011-2012. (03 marks)
- (ii) What are the goals expected to achieve by year 2020 in accordance with the report with the title of 'Unstoppable Sri Lanka 2020' that examines the extended version of 'Mahinda Chinthana Visions for a future'? (03 marks)
- (iii) What are the suggestions that can be made to promote the tourism industry of Sri Lanka? (04 marks)
- (iv) Examine the degree to which Sri Lanka has achieved the goal of the 'eradication of extreme poverty', which was one of the goals of 'Millennium Development Goals'? (04 marks)
- (v) Name the objectives of 'Divi Neguma' Programme and explain its current performance. (06 marks)