

G.C.E. A/L Examination March - 2020

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

Instructions :

- ◆ Answer the all questions
- ◆ Write your Index Number in the space provided in the answer sheet.
- ◆ In each of questions **1 to 50**, pick one of the alternatives from **(1),(2),(3), (4),(5)** which is **correct** or **most appropriate** and make your response on the answer sheet with cross **(X)**

01. Which one of the following is normative statement?

- 1) Economic theory assumes that firms will maximize profits
- 2) Labour is the human contribution to production.
- 3) Producers and consumers may have to consider opportunity cost when making decisions.
- 4) Governments must intervene in markets.
- 5) Current Population growth rate in Sri Lanka is 1.0%

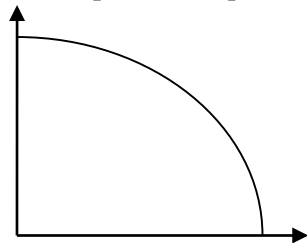
02. Which one of the following is classified as an economic resource?

- 1) Consumptions
- 2) Productivity
- 3) Opportunity cost
- 4) Production
- 5) Enterprise

03. One of the differences between a free market economy and a centrally planned economy is that is **former**

- 1) Some resources are privately owned and some are state owned.
- 2) Resources are only scarce in a free market economy.
- 3) All resources are privately owned and allocated by market forces.
- 4) Most resources are used to produce capital goods.
- 5) Most resources are privately owned and allocated by government forces.

04. The diagram below shows a production possibility frontier for an economy



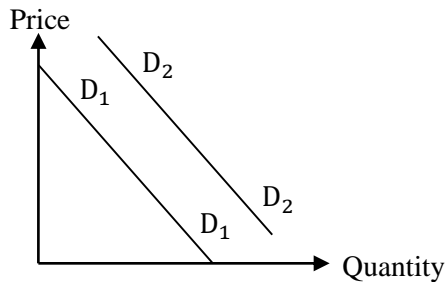
when the economy is operating on its production possibility frontier an increase in the production of private goods will.

- 1) have no effect on the price of private goods because public goods are free.
- 2) mean a reduction in the production of private goods.
- 3) increase total output because public goods are non-rival
- 4) increase the opportunity cost of private goods.
- 5) Zero opportunity cost of Public goods

05. Allocative efficiency means.

- 1) Distribution of limited resources of an economy based on society's preference.
- 2) Productive employment of all resources of an economy within a production process
- 3) Achieving of maximum output from all resources of an economy
- 4) Two main conditions are necessary for the Allocative efficiency. They are full employment and full production.
- 5) The benefit gain by the consumption of an additional unit of a particular goods.

06. The diagram below shows the demand (D) curves for a normal goods.



The shift in demand from D₁ to D₂ could have been caused by

- 1) A decrease in the price of a close substitute.
- 2) An increase in the price of complementary goods.
- 3) Consumers' expectations that the price of good is about to fall.
- 4) A decrease in number of consumer.
- 5) An increase in the income of buyers.

07. Which one of the following is **correct**.

- 1) An inferior goods always has positive price elasticity of demand.
- 2) An inferior goods always has substitutes.
- 3) An inferior goods always has negative cross elasticity of demand.
- 4) An inferior goods always has negative income elasticity of demand.
- 5) An inferior goods always has positive price elasticity of demand and negative income elasticity of demand.

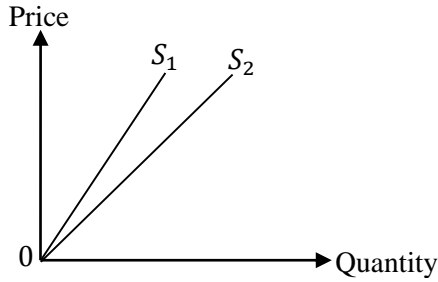
08. The table below shows the value of the price elasticity of demand facing each type of provider of passenger transport.

Airlines	Bus companies	ship companies	car companies	Train companies
- 0.5	- 0.7	- 0.8	- 1	- 1.5

if the fares charged for the use of each of these forms of transport **rose** by the same percentage which type of provider would see the **great** proportional increase in total sales revenue?

- 1) Airlines
- 2) Bus companies
- 3) Ship companies
- 4) car companies
- 5) Train companies

09. Diagram OS_1 and OS_2 are two straight line supply curves



As price increases ,the elasticity of Supply

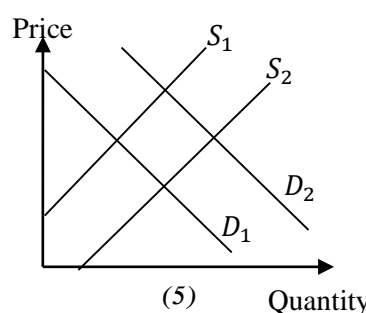
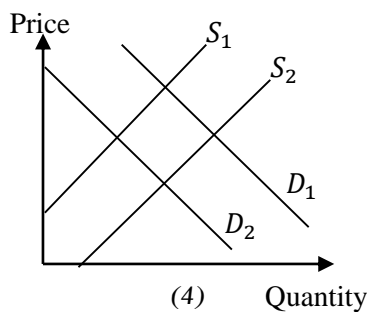
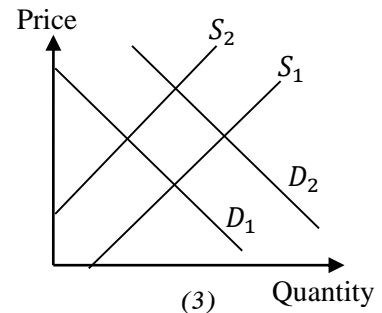
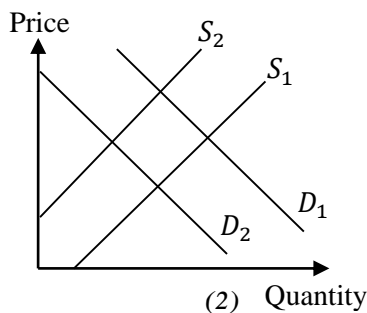
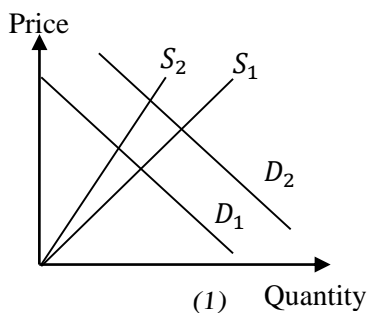
- 1) Decreases a long both OS_1 and OS_2
 - 2) Increases less rapidly along OS_1 than along OS_2
 - 3) Increases more rapidly along OS_1 than along OS_2
 - 4) Is constant along both OS_1 and OS_2
 - 5) Increases constant along both OS_1 and OS_2
10. The following statements about conditions of market equilibrium are true **EXCEPT** which **ONE** ?
- 1) Expected demand price should be equal to expected supply price.
 - 2) Expected quantity demanded should be equal to expected quantity supplied.
 - 3) Excess demand and excess supply must be zero.
 - 4) Excess demand price and excess supply price should be zero.
 - 5) Consumer surplus and producer surplus must be equal

11. The table below shows the demand and supply of good X

P	10	20	30	40	50
Qd	5000	4000	3000	2000	1000
Qs	1000	2000	3000	4000	5000

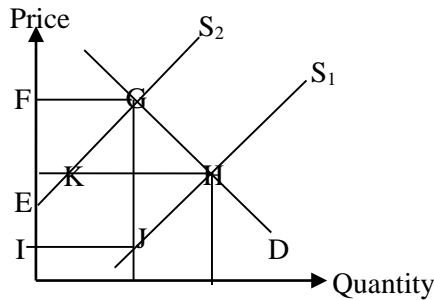
calculate the consumer surplus at equilibrium point

- 1) Rs.30 2). Rs.1500 3) Rs.4500 4) Rs.45000 5) Rs. 90000
12. The diagrams below S_1 and D_1 show the original Supply and Demand curves for good X while S_2 and D_2 show shifts of these curves. Which diagram (1),(2),(3),(4)or(5) illustrates the effects of an increase in the price of a good that is complementary to good X and in labour productivity in the production of good X?



13. An indirect tax on the production of a good will have **no effect** on equilibrium Quantity if demand is
- 1) Inversely related to price
 - 2) of unitary elasticity
 - 3) Elastic
 - 4) Inelastic
 - 5) of Zero elasticity

14. The diagram below shows the market demand (D) and two market supply curves (S_1 and S_2) for a good. The initial equilibrium point is at H. the introduction of an indirect tax per unit by the government results in a new equilibrium pint at G.



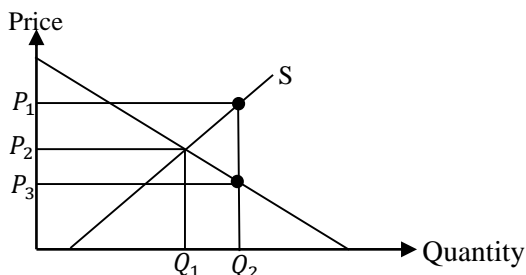
The amount of the per **unit tax** is measured by the

- 1) Vertical distance JG
 - 2) Increase in price EF
 - 3) the diagonal distance HG
 - 4) The horizontal diagonal distance KH
 - 5) The distance of EI
15. The table below shows the annual demand and supply for good X

P (RS)	10	9	8	7	6
Qd ('000 units)	4	6	8	10	12
Qs ('000 units)	12	10	8	6	4

The government fixed the minimum price at 9 to be maintained by intervention. How much will such an action cost the government each year?

- 1) Rs.90000
 - 2) Rs.72000
 - 3) Rs.54000
 - 4) Rs.36000
 - 5) Rs. 18000
16. The diagram below show the demand and supply curves of good Y



To increase consumption from $0Q_1$ to $0Q_2$ the government Could

- 1) Tax producers by $P_3 - P_2$ per unit of the good Y
- 2) Subsidy producers by $P_3 - P_2$ per unit of the good Y
- 3) Impose a maximum price of OP_3
- 4) Impose a minimum price of OP_2
- 5) Tax consumers by $P_3 - P_2$ per unit of the good Y

17. Which one of the following is several approach that can be taken to make maximum price meaningful
- 1) Import
 - 2) Storing of supply
 - 3) Government Buy products from producer
 - 4) Promoting the current demand
 - 5) Exports
18. Which one of the following is included in implicit costs?
- 1) Material Cost
 - 2) Labour Cost
 - 3) Over Heads
 - 4) Economic Profit
 - 5) Zero Economic Profit
19. If in the short run a firm's total product is increasing then is ,
- 1) Marginal product must also increasing
 - 2) Marginal product must be decreasing
 - 3) Marginal product must be Zero.
 - 4) Marginal product could be either increasing or decreasing
 - 5) Marginal product must be negative

20.

Out put	0	1	2	3	4	5	6	7
Total Cost	50	90	120	140	170	210	260	330

Refer to the above data. The perfect competition firm produce five (5) units and sold per unit is RS.40. The firm will

- 1) Shut down and incur a RS.10 loss
 - 2) Shut down and incur a RS.10 profit
 - 3) Must increase its output
 - 4) Produce but will necessarily realize a loss.
 - 5) Maximizing its profit.
21. Which of the following is **NOT** feature of perfect competition
- 1) Price Can be determined independently by a firm
 - 2) The presence f a large numbers of firms
 - 3) Free entry and Exit
 - 4) Producing homogenous goods.
 - 5) The buyers and sellers have a perfect knowledge of the market.
22. The length from one peak to another peak of a business cycle is called
- 1) Recession
 - 2) Trough
 - 3) Expansion
 - 4) length of a business cycle.
 - 5) Economic Growth.
23. Which one of the following Productive activity **included** in Gross Domestic Product.
- 1) Unpaid household work.
 - 2) Freely obtained natural resources (Land, water, air etc.).
 - 3) Natural resources grown without the intervention of man (such as forests).
 - 4) Education and leisure.
 - 5) All goods and services sold at the market

24. Basic price can be estimated as follows.
- 1) Producers' price - Net taxes on products
 - 2) Producers' price + Trade margin charged by intermediaries and transportation costs – Subsidies provided to retailers by the government on behalf of consumers + Value Added Taxes on products charged from consumers.
 - 3) Producers' price + Net taxes on products.
 - 4) Producers' price + Value Added Taxes on products charged from consumers.
 - 5) Producers' price + Subsidies provided to retailers by the government on behalf of consumers
25. Gross Value of Output 400, Cost of Raw materials 200 ,Cost of services 150 Refer to the above data.
- 1) Intermediate consumption 200 and Gross Value Added 200
 - 2) Intermediate consumption 350 and Gross Value Added 750
 - 3) Intermediate consumption 150 and Gross Value Added 750
 - 4) Intermediate consumption 350 and Gross Value Added 50
 - 5) Intermediate consumption 600 and Gross Value Added 150
26. Incomes of households included in national income
- 1) Net personal secondary income from rest of the world
 - 2) Compensation of employees
 - 3) Pensions
 - 4) Interest gained by households for public debt
 - 5) Other subsidies gained by households
27. In the **Circular flow of income model**, which one of the following equation is **correct**?
- 1) $\text{Income} = \text{Output} = \text{Expenditure}$.
 - 2) $\text{Income} = \text{Output} = \text{Injections}$
 - 3) $\text{Output} = \text{Expenditure} = \text{Withdrawals}$
 - 4) $\text{Expenditure} = \text{Income} = \text{Injections} = \text{Withdrawals}$
 - 5) $\text{Expenditure} = \text{Income}$ greater than Injections and Withdrawals
28. Which one of the following best illustrates the multiplier process?
- 1) A change in one of the components of aggregate demand leading to much greater increase in National Income.
 - 2) An Increase in national income resulting in a proportionately larger rise in investment.
 - 3) An Increase in national income resulting in a proportionately larger rise in Tax.
 - 4) Government subsidies to firms for research and development helping to increase the rate of innovation.
 - 5) An Increase in Government spending during a recession helping to stimulate investment.

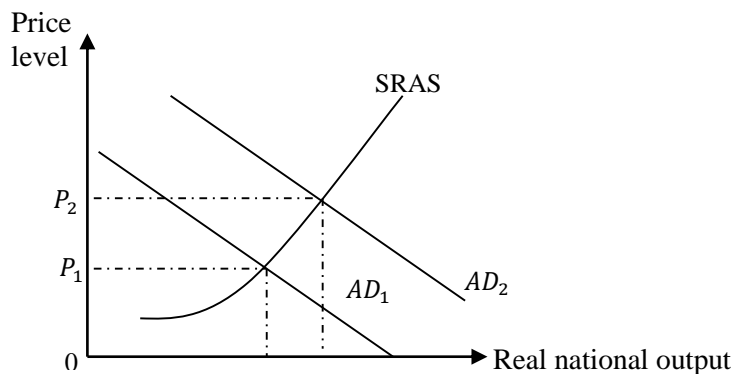
29. The following schedule presents the determination of macro economy.

Income (Y)	Disposable Income (Yd)	Consumption (C)	Investment (I)	Gov. Purchasers (G)	Exports (X)	Imports (M)	Net exports (X-M)	Total Expenditure (E) (C+I+G)
0	-250	400	200	300	200	300	-100	1000
2000	1750	2000	200	300	200	300	-100	2400
4000	3750	3600	200	300	200	300	-100	4000
6000	5750	5200	200	300	200	300	-100	5600
8000	7750	6800	200	300	200	300	-100	7200
10000	9750	8400	200	300	200	300	-100	8800

According to the schedule above at the income level of

- 1) Rs 2000 2) Rs 4000 3) Rs 6000 4) Rs 8000 5) Rs 10000

30. The diagram below shows two aggregate demand(AD) curves and the short-run aggregate supply (SRAS) curve for an economy



Which one of the following could explain the shift of the aggregate demand (AD)curve from AD₁ to AD₂?

An increase in

- 1) exports 2) savings 3) the exchange rate.
4) rates of taxation 5) interest rates.

31. An instrument which act as a **temporary medium of exchange** and which **does not act as a store of value**

- 1) credit cards 2) Fixed deposits 3) savings deposits
4) treasury bills 5) exchange bills

32. Deflation is most likely to

- 1) cause consumers to delay their purchases
2) lead to a rise in interest rates.
3) lead to a rise in imports
4) reduce the real value of any money that has been lent.
5) lead to rise aggregate demand

33. Which one of the following is most likely to **reduce** inflationary pressures in the Sri Lankan Economy
- 1) An increase in labour productivity
 - 2) A fall in the value of the SriLankan rupee
 - 3) The emergence of positive output gap
 - 4) A reduction in the rate of interest paid on mortgages.
 - 5) An increase in Aggregate Demand
34. Economic and price stability means constructing of the monetary policy to reach a lower level of inflation which one of the following **is not** importance of economic and price stability.
- 1) Promotion of economic growth
 - 2) Efficient distribution of resources
 - 3) Reducing the risk of producers, consumers and investors
 - 4) Constructing of economic plans
 - 5) manage of the government debts.
35. Which one of the following is **Agency function** of Central Bank of Sri Lanka
- 1) Controlling of monetary policy
 - 2) Management of public debt
 - 3) Controlling of exchange rate policy
 - 4) Issuing of currency
 - 5) Management of official foreign reserves
36. Which one of the following is commercial bank's balance sheet are identified as earning assets.
- 1) Cash with the central bank
 - 2) Cash with other domestic banks
 - 3) Treasury bonds
 - 4) Money at short
 - 5) Cash balance with offshore banks

37. Balance sheet of an common Banking systems

Liabilities	Rs. Million	Assets	Rs. Million
Deposits	10 000	Reserves	4 000
		Loans	6 000
Total	10 000	Total	10 000

If this banking system has Excess reserves RS.2000 million. What is the statutory reserve ratio in this banking system

- 1). 60 %
 - 2). 40%
 - 3). 30%
 - 4) 20%
 - 5). 10%
38. Which one of the following is an appropriate from government intervention for the problem identified?
- 1) The introduction of pollution permits to limit negative externalities.
 - 2) The use of buffer stock to stabilise the price of a public good.
 - 3) The imposition of a maximum price for merit good above its free market price.
 - 4) The provision of subsidy for product which generates negative externalities.
 - 5) The imposition of a minimum price for merit good below its free market price.

39. Merit goods are likely to be underprovided in a free market economy because their
- 1) Private benefits exceed their social benefits
 - 2) Social benefits exceed their social costs
 - 3) Private costs exceed their Private benefits
 - 4) Social benefits exceed their Private benefits
 - 5) Social benefits equal to their Private benefits

40. Taxes should be paid to the government according to the amount of services receive by the government.
- 1) Principle of benefit
 - 2) Principle of ability to pay
 - 3) Horizontal equity
 - 4) Vertical equity
 - 5) Equity

41. Change in tax along with change in tax base

Level of income	Amount of tax
50 000	12 500
100 000	25 000
200 000	50 000

In the above data, What type of tax depending on the rate of tax charged

- 1) Regressive tax
 - 2) Proportional tax
 - 3) Progressive tax
 - 4) Value Added tax
 - 5) Indirect tax
42. Which one of the following is the **current expenditure** of the Government Budget?
- 1) Purchasing of machinery
 - 2) Construction of buildings
 - 3) Pensions
 - 4) Purchasing of vehicles
 - 5) Construction of highways
43. Due to an unexpected situation if it is difficult to present appropriate act to the parliament and to get the approval from the parliament at the right time till it approves the temporary schedule presented to the parliament to pay the expenditures of each ministry for the next financial year from the government's consolidated fund.
- 1) Government Budget
 - 2) appropriate act
 - 3) Supplementary estimate.
 - 4) Vote on account.
 - 5) Internal budget.
44. Comparative advantage means that one country can produce
- 1) More of one product than another country
 - 2) More of one product than of another product.
 - 3) One product at lower marginal cost another country
 - 4) One product at lower opportunity cost another country
 - 5) One product at lower long run average total cost than another country
45. Sri Lanka's largest export markets are.
- 1) India and China
 - 2) USA and UK
 - 3) India and UK
 - 4) India and USA
 - 5) China and USA

46. What would limit the globalization process among nations?

- 1) Acquiring of new ideas and experiences.
- 2) Increase in volume of world trade.
- 3) Ability to use as a strategy of economic growth.
- 4) Increase in foreign investment.
- 5) More benefits are gained by developed countries.

47. Example for imports of **intermediate goods** in Sri Lanka

- 1) Private motor cars
- 2) Textiles and garments
- 3) Wheat flour
- 4) Milk powder
- 5) Electrical equipments

48. All other things being equal, a rise in the exchange rate is likely to

- 1) Reduce the price of exports
- 2) Increase import prices
- 3) Increase domestic demand
- 4) Reduce domestic employment
- 5) Increase domestic product.

49. The table below shows the components of the balance of payment for an economy in 2019

Export good	Rs 500
Export of services	Rs 400
Import of goods	Rs 800
Import of services	Rs 300
Net primary Income	Rs +50
Net secondary Income	Rs +100

It follows that the balance of payments on current account for in 2019

- 1) Rs150
- 2) Rs200
- 3) Rs250
- 4) Rs -200
- 5) Rs -50

50. In a floating exchange rate system,

- 1) The government intervenes to influence the exchange rate
- 2) The exchange should adjust to equate the supply and demand of foreign exchange
- 3) The balance of payments should always be in surplus.
- 4) The balance of payments will always equal the government budget..
- 5) The external value of the currency would always tend to rise.



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II

Economics - II

Time : 3 hours 10 minite

Part – II

Instructions :

- ❖ Answer five questions only , Selecting minimum of two questions from sub-section A and two questions from sub-section B

Sub-section A

01. 1) Determine which statements are normative statements , positive statements from the following statements belongs to
- It should increase monthly salary of every government worker by Rs.5000
 - Positive relationship exists between money supply and the price level.
 - Population growth rate in Sri Lanka is 1%
 - Sri Lanka should obtain foreign aids for development (4x1=4marks)
- 2) a. Define the term opportunity cost? (2 marks)
b. What is the law of increasing opportunity cost? (2 marks)
- 3) a. What is meant by “Non economics resources”? (2 marks)
b. What are the main characteristics of economics resources”? (2 marks)
- 4) What conditions must be satisfied if resources are used efficiently in an economy? (4 marks)
- 5) a. What are the assumptions for given production possibilities curve? (2 marks)
b. Draw production possibilities curve that shows increasing opportunity cost. Also show the following on different production possibilities curve
i) increasing in Resources endowment
ii) Underemployment of Resources (2 marks)
02. 1) a. Explain the Law of demand? (2 marks)
b. What are the assumptions of Law of Demand? (2 marks)
- 2) a. Distinguish between individual demand and market demand? (2 marks)
b. What factors influence the market demand for a normal good? (2 marks)
- 3) Market demand curve and the market supply curve for sugar have been given below
- | P | Qd (millon) | Qs (millon) |
|-----|-------------|-------------|
| 100 | 1.0 | 0.5 |
| 200 | 0.5 | 1.0 |
- When the price increasing Rs 100 to Rs 200
- calculate change in consumer expenditure ? (2 marks)
 - discuss about elasticity of demand according consumer expenditure method ? (2 marks)

- 4) State Reasons for shift of the supply curve and briefly explain these factors (4marks)
- 5) Explain the factors that determine the elasticity of supply? and briefly explain these factors (4 marks)

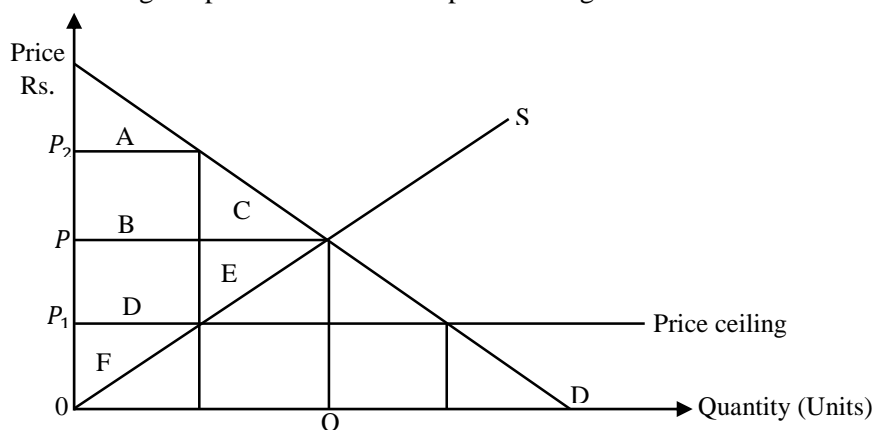
03. 1) Market demand curve and the market supply curve for sugar have been given below

$$Q_d = 500 - 10p \quad Q_s = -100 + 20p$$

Assume that the government now imposes a unit tax Rs.3

- a. what is the equilibrium price and quantity after tax? (4 marks)
- b. what is the government revenue from the tax? (2 marks)
- c. what is the price elasticity of demand at new equilibrium? (2 marks)
- d. calculate producer surplus after tax ? (4 marks)
- 2) a. What are the approaches that can be taken to make maximum price meaningful.? (2 marks)
- b. State two Non price rationing techniques As the price mechanism being neutralized due to the maximum price policy scare, goods have to be rationed by using non price rationing techniques. (2 marks)

3) The following Graph shows maximum price ceiling



- a. Economic surplus area before maximum price ceiling
- b. Economic surplus area after price ceiling
- c. Dead weight loss area
- d. what are the Two factors determine the inclusion of B + D to the consumer surplus in price ceiling

(4x1 =4 marks)

04. 1) Explain the short run production function and long run production function (4 marks)

- 2) a. Explain the diminishing marginal returns? (2 marks)
- b. what are the assumptions of law of diminishing marginal returns relevant to short run output? (2 marks)

3) Which are the following cost effect in short run marginal cost briefly explain

- a. Cost depreciation
- b. material cost
- c. Property tax
- d. Insurance installments (4 marks)

4) How to affect the short run Average product, marginal product with short run cost curve. (4 marks)

- 5) a. state two factors affect the various market structures? (2 marks)
 b. state two characteristics of perfect competition ? (2 marks)

05. 1) Explain the macro economic objectives and state some Macro economic objectives (4 marks)

2) Explain the Main duties of the government sector in a economy activity? (4 marks)

3) Compensation of employees	10000
Net operational surplus	12500
Fixed capital formation	2500
Mixed income	15000
Other taxes on products minus subsidies	2000
Net taxes on products and imports	1000

Calculate :

- a. Total value added at basic price
 b. Gross Domestic Product at market price (2x2=4marks)

4) state two examples **for each**

- a. Incomes not received by households
 b. Incomes of households not included in national income (2x2=4marks)

- 5) Consumption function (C) = 600 + 0.8 Yd
 Investment expenditure (I) = 200
 Government purchases (G) = 300
 Net Exports (X-M) = - 100
 Autonomous Taxes = 250

Autonomous Taxes and Government purchases increasing 100 at the same time

- a. Explain if the national income change? (2 marks)
 b. Explain if the budget balance change? (2 marks)

Sub-section B

06. 1) What is the difference between “near money” and “money Subsidy”? (4 marks)

- 2) a. What is meant by “Demand for money”? (2 marks)
 b. Why do people demand money? (2 marks)

3) What is meant by monetary base? how it relate with money supply? (4 marks)

4) Explain demand pull inflation with Keynesian theory? (4 marks)

5) Suppose that statutory reserve ratio 20% and that the bank has reserves of Rs. 40 million, loans and investments of Rs.160 million, and total Demand deposits of Rs.200 million.

- a. Assume that this bank operates within a banking system. Can this bank expand its loans? Give reasons for you answer. (2 marks)
 b. what will be the increase or decrease in the quantum of bank lending if statutory reserve ratio is reduced to 15% (2 marks)

07. 1) What is meant by market failure. What are the main affect for market failure? (4 marks)

2) Define the global public goods, what fearers can be identified with related to a global public good. (4 marks)

- 3) a. What are the objectives of taxation? (2 marks)
 b. What are the two conditions should be fulfilled to achieve the tax principle of equity? (2 marks)

4) Item	Rs. in million
Total revenue and grants	170 000
Total revenue	165 000
Tax revenue	150 000
Non tax revenue	15 000
Grants	5 000
Expenditure and lending minus repayments	200 000
Total Recurrent	175 000
Interest payments	10000
Capital and net lending	25 000
Public investment	20 000

According to above budget schedule calculate:

- a. Balance of current account (2 marks)
 - b. Balance of primary account (2 marks)
- 5) Define the term of Supply side policies and state Instruments of supply side policies (4 marks)
08. 1) What is competitive advantage? What are the sources of competitive advantage? (4 marks)
- 2) what are the non tariff barriers Approaches used for protection except import and export. (4 marks)
 - 3) a. What is meant by Commodity terms of trade? (2 marks)
 - b. Reasons for increase in commodity terms of trade (2 marks)
 - 4) Assume that the price of pair of shoe is Rs. 5 000 and Rs 3 000 spent to import inputs needed to produce this pair shoes. Assume that same pair of shoe selling at the same price at the world market. to protect the domestic producer if a tariff as of 10% is imposed on imported production. Calculate effective rate of protection (4 marks)
 - 5) What is meant by common market and give some examples? (4 marks)
09. 1) What are the Importance of foreign trade agreement? (4 marks)
- 2) What are the Arguments for globalization ? (4 marks)
 - 3) Explain with the use of recent data of the central bank report export structure of Sri Lanka. (4 marks)
 - 4) What are the problems facing Sri Lankan Economy to export? Give some suggestions for reducing these problems? (4 marks)
 - 5) State four various forms of economic integration (4 marks)
10. 1) What are the Solutions that can be presented for long term deficit of Balance of payment?(4 marks)
- 2) What is meant foreign resource gap? State some reasons to deficit of a foreign resource gap generates? (4 marks)
 - 3) What are the Composition of foreign assets? (4 marks)
 - 4) What are the economic effects of devaluation of exchange rate? (4 marks)
 - 5) Define nominal exchange rate and real exchange rate? (4 marks)