Instructions to candidates

(1) This paper consists of two (02) Sections A & B.
(2) Five (05) questions should be answered, as follows:
   - Question No.01 of Section A,
   - Any four (04) questions from Section B.
(3) Answers should be in one language, in the medium applied for, in the booklets provided.
(4) Graph Papers will be provided.
(5) 100 Marks.

SECTION - A
Multiple Choice Questions
All questions of this Section should be answered.
40 marks

01. Select from (1), (2), (3) and (4) the most correct answer to each of the following questions. Write the number of the selected answer in your answer booklet with the English letter assigned to the question.

(A) A country can produce two goods x and y in the combinations given below by the curve M N.

![Diagram of production possibilities curve]

The above curve indicates:

(1) Good y is produced under conditions of decreasing costs.
(2) The marginal rate of transforming Good x into Good y is constant.
(3) When more of Good x is produced, the opportunity cost of Good x in terms of Good y rises.
(4) When more of Good x is produced, the opportunity cost of Good x in terms of Good y falls.

(B) Select from the following, the most correct statement in relation to "Wants" in Economics:

(1) Wants are things that a consumer is planning to buy from his income.
(2) Food, housing and clothes are examples of wants.
(3) Wants are common for everyone.
(4) Wants are different from person to person.
(C) The law of demand explains:

1. The relationship between price and the quantity demanded in a market.
2. The change in demand due to change in income.
3. The change in demand for raw material due to change in demand for a commodity.
4. The change in demand for a commodity as a result of change in price of another commodity.

(D) The demand curve shifts to the left as a result of:

1. A fall in the price of the good.
2. A rise in the price of a complementary good.
3. A fall in the price of a complementary good.
4. A rise in the price of a substitute good.

(E) The following are given as determinants of elasticity of supply:

(a) Mobilization of the factors of production.
(b) Ability to maintain stocks.
(c) Whether the commodity is a necessity or a luxury good.
(d) The time taken to change the supply of production.

Out of the above, the correct determinants of elasticity of supply are shown in:

1. (a), (b) and (d) only.
2. (a), (b) and (c) only.
3. (a), (c) and (d) only.
4. (b), (c) and (d) only.

(F) When the total utility reaches maximum level, the marginal utility is:

1. Constant.
2. Positive.
4. Negative.

(G) An increase in the price of a good leads to increase in the quantity demanded of that good. The good is known as:

1. Normal good.
2. Luxury good.
3. Complementary good.
4. Giffen good.
(H) A, B & C are the only three consumers in a market. Their demand schedules are as follows:

<table>
<thead>
<tr>
<th>Price Rs.</th>
<th>Quantity Demanded</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>A</td>
</tr>
<tr>
<td>5</td>
<td>200</td>
</tr>
<tr>
<td>10</td>
<td>150</td>
</tr>
<tr>
<td>15</td>
<td>125</td>
</tr>
<tr>
<td>20</td>
<td>100</td>
</tr>
</tbody>
</table>

With other factors remaining constant, if the price falls from Rs.15/- to Rs.10/-, the change in quantity demanded at the market is:

(1) Increase by 275.  (2) Decrease by 100.
(3) Increase by 100.  (4) No change in quantity demanded.

(I) The diagram below shows the demand and supply curves for rice. The equilibrium price is $P_1$.

Select from the following, the incorrect statement as a result of imposing a maximum price at $P_1$ by the government:

(1) After the maximum price, the supply is OL.
(2) The demand decreases by MN.
(3) The excess demand is LN.
(4) The black market price is $P_2$.

(J) The following are given as Macro Economic Objectives:

(a) Full employment, Equity.
(b) Balance of payments Equilibrium, Price Stability.
(c) Aggregate output, Aggregate Consumption.
(d) Acceleration of Economic Growth, Sustainable Development.

Out of the above, the correct Macro Economic Objectives are shown in:

(1) (a), (b) and (d) only.  (2) (a), (b) and (c) only.
(3) (a), (c) and (d) only.  (4) (b), (c) and (d) only.

(K) Select from the following, an injection into the circular flow of income:

(1) Imports.  (2) Savings.  (3) Exports.  (4) Taxation.
(L) You are provided with the following data pertaining to an economy in relation to National Income:

<table>
<thead>
<tr>
<th></th>
<th>Rs.(billion)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net National Product at market price</td>
<td>45</td>
</tr>
<tr>
<td>Taxes</td>
<td>9</td>
</tr>
<tr>
<td>Subsidies</td>
<td>1</td>
</tr>
<tr>
<td>Exports</td>
<td>8</td>
</tr>
<tr>
<td>Capital Consumption</td>
<td>5</td>
</tr>
<tr>
<td>Imports</td>
<td>6</td>
</tr>
</tbody>
</table>

The Gross National Product of the economy at market price is:

(1) Rs. 36 billion.  
(2) Rs. 50 billion.  
(3) Rs. 42 billion.  
(4) Rs. 53 billion.

(M) According to the Annual Report of the Central Bank of Sri Lanka for the year 2012, the economic growth rate of Sri Lanka in 2012 was:

(1) 8%.  
(2) 8.4%.  
(3) 6.4%.  
(4) 7.9%.

(N) What is meant by "Near Money"?

(1) The money which is intrinsic value less than the face value.  
(2) All notes and coins issued by monetary authorities.  
(3) The assets which can be quickly and easily converted into money.  
(4) The money which is intrinsic value equal or greater than the face value.

(O) Which one of the following is the most liquid asset in commercial banks?

(1) Treasury bills.  
(2) Cash in hand.  
(3) Loans.  
(4) Investments in government security.

(P) The following table shows the composition of money of a country for a particular year:

<table>
<thead>
<tr>
<th></th>
<th>Rs.(billion)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Currency held by the public</td>
<td>90</td>
</tr>
<tr>
<td>Demand deposits held by the government</td>
<td>280</td>
</tr>
<tr>
<td>Demand deposits held by the Central Bank</td>
<td>200</td>
</tr>
<tr>
<td>Demand deposits held by the public in Commercial Banks</td>
<td>290</td>
</tr>
<tr>
<td>Savings and time deposits held by the public in Commercial Banks</td>
<td>175</td>
</tr>
</tbody>
</table>

The Narrow Money Supply (M₁) was:

(1) Rs.70 billion.  
(2) Rs.465 billion.  
(3) Rs.380 billion.  
(4) Rs.375 billion.
(Q) Select from the following, the sentence which explains inflation correctly:

(1) Continuous increase in Milanka Price Index.
(2) Continuous increase in prices of imported raw material.
(3) Continuous increase in general price level of a country.
(4) Continuous increase in interest rates of a country.

(R) What is meant by the term “Fee”?

(1) A payment for a direct benefit received or to be received.
(2) A compulsory payment imposed by the government.
(3) A payment to use a public good.
(4) A payment of a fixed proportion of the income as a charity.

(S) Select from the following, an advantage of direct tax:

(1) Tax evasion is easy.
(2) Reduce purchasing power.
(3) Does not increase in price level.
(4) Reduce personal consumption.

(T) What is meant by “Foreign Aid”?

(1) The loans granted by foreign countries and International organizations on concessionary conditions.
(2) Government borrowings from Foreign Commercial Banks.
(3) The loans obtained from Asian Development Bank.
(4) The loans obtained from International Monetary Fund.

(02 marks each, Total 40 marks)

SECTION - B
Answer any four (04) questions only from this section
60 marks

02. (a) (i) What is meant by “Human Capital”?
(ii) State two(02) special features of “Human Capital”.
(b) Explain briefly the reasons for arising of basic economic problems in an economy.
(c) Explain briefly economic systems for solving basic economic problems.(06 marks)

03. (a) With the help of a graph, explain how the market forces determine the equilibrium price of a commodity.
(b) List five(05) main features of monopoly.
(c) With the help of a graph, explain how a monopolist maximizes his profits.
04. (a) Explain what is meant by “Indifference Curve Map”. (05 marks)
   (b) State four(04) weaknesses in utility theory. (04 marks)
   (c) When the government imposes a tax for an essential good, explain how the tax is distributed between the consumer and the supplier with the help of a graph. (06 marks)
   (Total 15 marks)

05. (a) Explain briefly the terms “Final Product Method” and “Value Added Method”. (04 marks)
   (b) The table below shows data relating to national income of a country for the year 2012:

<table>
<thead>
<tr>
<th></th>
<th>Rs. (million)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>(at current prices)</td>
</tr>
<tr>
<td>Private consumption</td>
<td>15,000</td>
</tr>
<tr>
<td>Government consumption</td>
<td>8,000</td>
</tr>
<tr>
<td>Depreciation</td>
<td>2,000</td>
</tr>
<tr>
<td>Net factor income from abroad</td>
<td>1,000</td>
</tr>
<tr>
<td>Exports</td>
<td>3,000</td>
</tr>
<tr>
<td>Imports</td>
<td>3,300</td>
</tr>
<tr>
<td>Gross investments</td>
<td>7,000</td>
</tr>
<tr>
<td>Gross Domestic Product at constant prices in 2011</td>
<td>18,000</td>
</tr>
</tbody>
</table>

   By using the above data, calculate:
   (i) The Gross Domestic Product (GDP) for the year 2012. (04 marks)
   (ii) The Real GDP Growth Rate for the year 2012. (03 marks)
   (c) State four(04) matters relating to importance of national accounts. (04 marks)
   (Total 15 marks)

06. (a) List three(03) factors that determine the supply of money and briefly describe two(02) of them. (06 marks)
   (b) Explain the relationship between the supply of Money and the General Price Level. (04 marks)
   (c) State five(05) consequences of falling of interest rate of a country. (05 marks)
   (Total 15 marks)

07. (a) Explain briefly the importance of current account surplus of the Government Budget. (04 marks)
   (b) (i) What is meant by “Current Transfers” of the government? (02 marks)
   (ii) Give three(03) examples for current transfers to households. (03 marks)
   (c) “At present the Government of Sri Lanka gives priority for investing in Infrastructure Facilities”.
      (i) Do you agree with the above statement? Give two(02) examples to justify your answer. (03 marks)
      (ii) State three(03) reasons for such investments. (03 marks)
      (Total 15 marks)