(53) BUSINESS STUDIES

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) Which one of the following is not an auxiliary service?

(1) Trade. (2) Banking. (3) Warehousing. (4) Communication.

(B) A partnership should be carried out on a written agreement, when

(1) the start-up capital is to be more than Rs.1,000/-. (2) there are limited partners in the partnership.
(3) the number of partners is to be more than 20. (4) the aim of the partnership is to earn profits.

(C) A Rights Issue of shares is,

(1) issue of bonus shares to shareholders of the company. (2) issue of shares to public by publishing a prospectus.
(3) issue of shares which can be redeemed whenever the company desires. (4) issue of shares to existing shareholders in proportion to the shares held by them.

(D) Which one of the following institutions is supervised by the Central Bank of Sri Lanka?

(1) Employees’ Provident Fund (EPF). (2) Licensed specialized banks.
(3) Registered leasing companies. (4) All of the above.
(E) Which of the following statements is **incorrect** with regard to credit rating?

1. Indicates the credit worthiness of an institution, but does not show the debt instruments issued by institutions.
2. Indicates the debtors' ability to pay back the debt and the likelihood of default.
3. Evaluation is made by a credit rating agency based on qualitative and quantitative information of debtors.
4. Poor credit rating indicates a credit rating agency's opinion that the company has a high risk of defaulting.

(F) The main objective of the Sri Lanka Chamber of Commerce is:

1. To promote inward flow of foreign direct investments.
2. To promote the development of private sector in order to make better contribution to the national economic development.
3. To encourage exporters and to enhance their contribution to the national economy.
4. To encourage exporters and to provide facilities that they require to expand the export market.

(G) Select from the following, the benefit that can be derived from insurance policies issued by the Sri Lanka Export Credit Insurance Corporation:

1. 100% coverage of financial and non financial risks.
2. Providing securities to banks and other financial institutions on behalf of exporters.
3. Ability to get reports on quality standards.
4. Ability to get Certificates of Origin.

(H) Which one of the following is considered **not** to be revealed by the insured under the principle of utmost good faith in life insurance?

1. Present value of the life.
2. Information regarding dependents.
3. Income.
4. Date of Birth.

(I) By obtaining an insurance cover, an individual

1. transfers the risks to someone else.
2. reduces the risk of an accident.
3. reduces the certainty of major loss.
4. minimizes the future risks.
(J) People tend to move into informal money market, mainly due to:

(1) inadequate knowledge on formal money market.
(2) low interest rates.
(3) lack of securities to obtain loans from formal money market.
(4) for easy repayment.

(K) Of the following, the instruments which consist only in the money market are:

(1) Promissory Notes, Unit Trusts, Debentures.
(2) Treasury bills, Commercial Papers, Promissory Notes.
(3) Commercial Papers, Unit Trusts, Ordinary Shares.
(4) Debentures, Ordinary Shares, Unit Trusts.

(L) (a) Bonus shares can be issued at a premium.
(b) Rights shares are issued first to existing shareholders.

Regarding the above statements, select the most suitable answer out of the following:

(1) (a) is true but (b) is false.  
(2) (a) is false but (b) is true.  
(3) Both (a) and (b) are true.  
(4) Both (a) and (b) are false.

(M) The secondary share market plays an important role in the capital market, as the performance of the stock market is determined by the secondary market activities. Accordingly, an efficient capital market is one where:

(1) Security prices show smooth patterns of movement.
(2) Relevant facilities are provided efficiently.
(3) Transactions are cheaply carried out.
(4) Security prices always rationally reflect all relevant information

(N) In Sri Lanka, it takes 50 labour hours to produce one unit of cloth and 100 hours to produce one kilogram of grain. In India, it takes 200 labour hours to produce one unit of cloth and 200 hours to produce one kilogram of grain.

According to the above information, which one of the following statements is true?

(1) Sri Lanka has a comparative advantage in the production of cloth.
(2) Sri Lanka has a comparative advantage in the production of both cloth and grain.
(3) India has an absolute advantage in the production of grain.
(4) India has an absolute advantage in the production of both cloth and grain.
(O) Select from the following, the main export and import countries of Sri Lanka for the year 2012:

<table>
<thead>
<tr>
<th>Main Export Country</th>
<th>Main Import Country</th>
</tr>
</thead>
<tbody>
<tr>
<td>(1) China</td>
<td>China</td>
</tr>
<tr>
<td>(2) USA</td>
<td>China</td>
</tr>
<tr>
<td>(3) USA</td>
<td>India</td>
</tr>
<tr>
<td>(4) Iraq</td>
<td>India</td>
</tr>
</tbody>
</table>

(P) Which of the following is **not** a characteristic of a customs union?

1. Zero tariff between member countries.
2. Reduced non-tariff barriers.
3. Common external tariffs.
4. Free movements of capital and labour among member countries.

(Q) Of the following, correct choice which includes only currencies used to determine value of Special Drawing Rights (SDR) is:

1. Japanese Yen, American Dollar, Canadian Dollar, Euro
2. Euro, British Sterling Pound, American Dollar, Japanese Yen
3. German Deutsche Mark, American Dollar, Japanese Yen, Indian Rupee
4. Indian Rupee, Canadian Dollar, Euro, Chinese Yuan.

(R) Which of the following is **not** included in “current account” of the balance of payments account?

1. Direct Investments.
2. Export of Goods.
3. Interest Earnings.

(S) Which one of the following is an example for Regional Economic Cooperation?

1. World Trade Organization.
2. European Union.
3. International Monetary Fund.

(T) Which of the following statement represents major hubs target to be developed in Sri Lanka by Commonwealth Heads Of Government Meeting (CHOGM)?

1. Transport hub and Shipping hub.
2. Shipping hub and Aviation hub.
3. Knowledge hub and Aviation hub.
4. None of the above.

(02 marks each, Total 40 marks)
SECTION - B
Answer any four (04) questions only from this Section.
60 marks

02. (a) Explain the following concepts:
(i) Division of labour. (06 marks)
(ii) Specialization. (06 marks)
(b) List four (04) rules and regulations affecting partnership business. (04 marks)
(c) Under the Companies Act No. 07 of 2007, what are the documents to be submitted to the Registrar of Companies to incorporate a limited liability company? (05 marks)
(Total 15 marks)

03. (a) What are the main categories of financial institutions in the financial system of Sri Lanka? (04 marks)
(b) List four (04) functions of a licensed commercial bank and state two (02) examples for licensed commercial banks. (06 marks)
(c) Differentiate between finance lease and operating lease. (05 marks)
(Total 15 marks)

04. (a) What are the services provided by the Board of Investment (BOI) for the development of tourism industry in Sri Lanka? (05 marks)
(b) Briefly explain the contribution of the Sri Lanka Industrial Development Board (SLIDB) for the development of entrepreneurship. (05 marks)
(c) List five (05) main services provided by the Export Development Board (EDB). (05 marks)
(Total 15 marks)

05. (a) "Profits can't be earned by insuring". Explain the above statement by using relevant principles of insurance. (05 marks)
(b) What are the methods of indemnification used by insurance companies in Sri Lanka? (04 marks)
(c) Briefly explain three (03) types of insurance policies used in "Marine Insurance". (06 marks)
(Total 15 marks)
06. (a) Explain limitations of absolute advantage theory by using a numerical example. 

(b) Explain the following with respect to balance of payment:
   (i) Current Account balance.
   (ii) Overall balance.

(c) Briefly explain economic implications of over valuation of the foreign exchange rate.

07. Write short notes on the following:

(a) Commercial papers.

(b) Terms of Trade.

(c) Documentary letter of credit.

(d) Forward exchange transactions.

(e) All share index.

(05 marks) 

(06 marks) 

(04 marks) 

(Total 15 marks) 

(03 marks each, Total 15 marks)