(52) ECONOMICS

Time: 02 hours

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) Select from the following the main objective of Economics:

   (1) How to produce consumers’ goods for unlimited wants.
   (2) How to use scarce resources to satisfy basic needs.
   (3) How to allocate scarce resources to satisfy unlimited wants and needs.
   (4) How to allocate resources for future use.

(B) The following diagram shows changes in demand. The equilibrium point is at A.

   ![Diagram](image)

   Which one of the following curves shows the increase in demand?

   (1) $D_2 - D_2$
   (2) $D_1 - D_1$
   (3) $D - D$
   (4) None of the above.
(C) The following table shows the prices and quantities demanded for a commodity.

<table>
<thead>
<tr>
<th>Price (Rs.)</th>
<th>Demand (Units)</th>
</tr>
</thead>
<tbody>
<tr>
<td>10</td>
<td>0</td>
</tr>
<tr>
<td>9</td>
<td>2</td>
</tr>
<tr>
<td>8</td>
<td>3</td>
</tr>
<tr>
<td>7</td>
<td>4</td>
</tr>
<tr>
<td>6</td>
<td>5</td>
</tr>
</tbody>
</table>

If the price of an unit increases to Rs.9/- from Rs.8/-, the price elasticity of demand is:

(1) 0.375 (2) 0.625 (3) 1.0 (4) 2.66

(D) If the cross elasticity of demand is negative, the good is:

(1) a complementary good. (2) a substitute good.
(3) an inferior good. (4) a normal good.

(E) Select from the following, the correct characteristics of an oligopoly:

(1) Large number of small producers, and producing homogeneous products.
(2) Many producers, and producing differentiated products.
(3) A few powerful firms, and there is an interdependence among firms.
(4) Single producer in the market, and there are barriers to enter other firms to the market.

(F) (a) Factors of Production are supplied to the factor market.
(b) Earnings of wages and salaries, interest, rent and profits.
(c) Receipt of income for goods.
(d) Purchase of goods.

Out of the above, the activities of household sector are shown in:

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

(G) The satisfaction of a person from consuming a good is called:

(1) Opportunity cost. (2) Total Utility.
(3) Utility. (4) Marginal Utility.
(H) Derived Demand exists in:

(1) Goods and services.  (2) Factors of Production.
(3) Essential goods.  (4) Services.

(I) Which one of the following is not an explicit cost?

(1) Cost of material.  (2) Interest paid to the bank.
(3) Cost of electricity and water.  (4) Normal Profit.

(J) Select from the following, the group of appropriate policies that can be used by the government for Foreign Market Policy:

(1) Personal Income Tax, Property Transfer Tax, Gift tax.
(2) Subsidies, Relief Payments, Pensions.
(3) Treasury Bills, Treasury Bonds, Bilateral Loans.
(4) Tariff, Quotas, Import and Export Licenses.

(K) The table below shows some selected data related to national income of a country for a particular year.

<table>
<thead>
<tr>
<th>Description</th>
<th>Rs. (Million)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Household expenditure</td>
<td>430</td>
</tr>
<tr>
<td>Household income taxes</td>
<td>70</td>
</tr>
<tr>
<td>Household savings</td>
<td>50</td>
</tr>
<tr>
<td>Interest payments</td>
<td>10</td>
</tr>
<tr>
<td>Household income</td>
<td>550</td>
</tr>
</tbody>
</table>

The disposable income of the household is:

(1) Rs.500 Million.  (2) Rs.470 Million.
(3) Rs.480 Million.  (4) Rs.440 Million.

(L) Final product method and value added method are used for the:

(1) Valuation of household income.  (2) Valuation of government revenue.
(3) Valuation of national product.  (4) Valuation of budget deficit.

(M) What is meant by “Economic Growth”?

(1) Development of skills and human capital.
(2) Improvement in government revenue.
(3) Persistent rise in the real national output of a country.
(4) Increase in Money Supply of a country.
(N) What is meant by Black Money?

(1) Money which has an intrinsic value equal to or greater than the face value.
(2) Money earned through illegal activities as such cannot be disclosed.
(3) The demand deposits of the public in commercial banks.
(4) The assets which can be quickly and easily converted into money.

(O) Select from the following, a **Non Liquid Asset** of Commercial Banks:

(1) Cash in Hand.           (2) Treasury bills.
(3) Money receivable from local banks. (4) Securities.

(P) Select from the following, the index used to measure inflation in Sri Lanka:

(1) Wholesale Price Index.    (2) Milanka Price Index.
(3) Colombo Consumers’ Price Index. (4) All Share Price Index.

(Q) Select from the following, the most correct reason for “Foreseen (Anticipated) Inflation”:

(1) Increase in Personal Income Tax.
(2) Sudden changes in the international market.
(3) Crop damages due to flood.
(4) Agreement to increase salaries and wages.

(R) What is meant by tax incidence?

(1) That the same income should not be taxed twice.
(2) The person who finally bears the tax.
(3) The value of the items subject to taxation.
(4) Exemption from taxation for a specific period of time.

(S) Which one of the following is a capital transfer of the government?

(1) Acquisition of real assets.
(2) Payment of drought relief by the government.
(3) Payment of salary advances by the government.
(4) The funds provided by the government to public corporations and statutory boards for investments.
Select from the following, an example for a Negative Externality:

(1) Motivation of people to study.
(2) Building a drainage system for waste water.
(3) Environmental pollution caused by the emissions of smoke of the factories.
(4) Labour training in firms.

(02 marks each, Total 40 marks)

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

02. (a) (i) Explain the concept of opportunity cost with an example. (03 marks)
(ii) List three (03) behaviours in opportunity cost. (03 marks)
(b) Distinguish between “Needs” and “Wants”. (04 marks)
(c) State five (05) characteristics of a Centrally Planned Economy. (05 marks)

(Total 15 marks)

03. (a) State the determinants of supply. (05 marks)
(b) The following table shows the total cost at different levels of output of product \( x \):

<table>
<thead>
<tr>
<th>Production units of ( x )</th>
<th>Total Cost (Rs.)</th>
</tr>
</thead>
<tbody>
<tr>
<td>0</td>
<td>30</td>
</tr>
<tr>
<td>1</td>
<td>60</td>
</tr>
<tr>
<td>2</td>
<td>80</td>
</tr>
<tr>
<td>3</td>
<td>96</td>
</tr>
<tr>
<td>4</td>
<td>120</td>
</tr>
<tr>
<td>5</td>
<td>160</td>
</tr>
<tr>
<td>6</td>
<td>216</td>
</tr>
<tr>
<td>7</td>
<td>280</td>
</tr>
<tr>
<td>8</td>
<td>368</td>
</tr>
</tbody>
</table>

Calculate the average cost and marginal cost. (04 marks)
(c) With the help of a graph, briefly explain the short run equilibrium in a firm under perfect competition. (06 marks)

(Total 15 marks)
04. (a) Explain the relationship between total utility and marginal utility with an example. (05 marks)

(b) With the help of a graph, show the change in consumer equilibrium as a result of fall in price of a commodity. (05 marks)

(c) What are the consequences if the government imposed a minimum purchase price above the equilibrium price for onion? (05 marks)

(Total 15 marks)

05. (a) (i) Explain briefly the term “Sustainable Economic Development”. (02 marks)

(ii) What are the activities to be adopted for “Sustainable Economic Development”? (03 marks)

(b) With the help of a diagram, explain circular flow of national income assuming a two sector economy. (05 marks)

(c) Explain the relationship between computation of Gross National Product at Factor Cost Prices and Market Prices. (05 marks)

(Total 15 marks)

06. (a) State three (03) motives of demand for money. (03 marks)

(b) (i) What is meant by “Money Supply”? (03 marks)

(ii) Briefly explain two (02) categories used to measure the money supply. (04 marks)

(c) State consequences of imposing credit limit for consumption. (05 marks)

(Total 15 marks)

07. (a) Briefly explain the three (03) main methods of taxation used by the government. (06 marks)

(b) State four (04) disadvantages of Indirect Tax. (04 marks)

(c) List the sources of financing the budget deficit. (05 marks)

(Total 15 marks)