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 sentence which describes "Scarcity of Resources":

   (1) There are limits to the economies of scale.
   (2) Population grows faster than output.
   (3) Availability of resources is insufficient to meet human needs and wants.
   (4) Allocation of resources is not optimal.

(B) The diagram below shows the production possibility curve of goods x and y of an economy.

Which one of the following point/s show/s the scarcity of resources of the economy?

   (1) M only.
   (2) M, N and P only.
   (3) P only.
   (4) S only.
(C)  
(a) Desire for a commodity.  
(b) Purchasing power.  
(c) Willingness to buy a commodity.  
(d) Cost of production of a commodity.

Out of the above, the correct conditions required for an effective demand are shown in:

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

(D) The following diagram shows demand and supply curves for a commodity.

The producer surplus is:

(1) Rs.2,500/-.  
(2) Rs.1,250/-.  
(3) Rs.6,000/-.  
(4) Rs.1,750/-.  

(E) The diagram below illustrates the behaviour of a firm operating under perfect competition in the short run.

At what level of output does the firm operate in order to maximize its profits?

(1) OR.  
(2) OS.  
(3) OT.  
(4) RU.

(F) Select from the following, the most suitable statement in relation to the consumers’ budget line:

(1) It shows consumers’ preferences and market conditions.  
(2) It shows combinations of two goods which a consumer desires to purchase.  
(3) It shows all combinations of two goods that can be purchased with given commodity prices and income.  
(4) It shows the change in consumer’s taste.
(G) The satisfaction obtained by a person from consuming an additional unit of a commodity is less than that of the previous unit consumed. This is known as:

(1) Utility.  (2) Total Utility.  
(3) Marginal Utility.  (4) Diminishing Marginal Utility.

(H) A & B are the only two consumers in a market. The following equations show market demand and demand of consumer A for a given commodity.

\[
\text{Market demand, } Q_d = 130 - 6p \\
\text{Consumer A's demand, } Q_d = 90 - 4p
\]

When the price of the commodity is Rs.10/-, the quantities demanded by consumers A and B respectively would be:

(1) A = 50, B = 20.  (2) A = 70, B = 50.  
(3) A = 20, B = 70.  (4) A = 130, B = 20.

(I) If the cross elasticity of demand between goods \( x \) and \( y \) is positive (+), the goods are:

(1) Substitute goods.  (2) Complementary goods.  
(3) Inferior goods.  (4) Normal goods.

(J) Select from the following, the group of items that can be considered as leakages from circular flow of income in an economy with foreign trade:

(1) Exports, Imports, Savings.  
(2) Imports, Government expenditure, Taxation.  
(3) Savings, Taxation, Imports.  
(4) Exports, Investments, Government expenditure.

(K) According to the Annual Report of the Central Bank of Sri Lanka for the year 2012, the per capita income of Sri Lanka in 2012 was:

(1) US Dollar ($) 2,836/-.  (2) US Dollar ($) 2,400/-.  
(3) US Dollar ($) 2,057/-.  (4) US Dollar ($) 2,923/-.

(L) Of the following sentences, which one describes “Intermediate Goods”?

(1) The output of all goods and services produced for consumption.  
(2) The total of fixed capital and working capital.  
(3) The value of all final goods & services produced in the economy.  
(4) The goods which are used as raw materials and inputs for producing finished goods.
(M) Which one of the following is **not** included in the calculation of national income?

(1) The salaries of administrative officers.
(2) Defence expenditure.
(3) Sale and purchase of Treasury Bills.
(4) Property income from abroad.

(N) **(a)** Perishability of the goods to be exchanged.

**(b)** Difficulty in transporting.

**(c)** Absence of a double coincidence of wants between two parties.

**(d)** Absence of a standard measure of value.

The above are difficulties encountered in:

(1) Price mechanism.  (2) Forward sales contracts.
(3) Barter system.  (4) Purchasing on credit terms.

(O) Select from the following, the most important characteristic of money:

(1) Intrinsic value should be equal to face value.
(2) General acceptability as a medium of exchange.
(3) It should have substitutes.
(4) It should be equal to net assets of the banking system.

(P) Which one of the following is **not** an effect of rise in price level of the economy?

(1) Rise in the cost of living.  (2) Limitation of investments.
(3) Rise in the value of money.  (4) Fall in the standard of living.

(Q) Select from the following, the meaning of “Foreign Exchange Buying Price”:

(1) The exchange rate paid to foreign investors to invest in Sri Lanka.
(2) The exchange rate paid to obtain foreign loans to finance development projects.
(3) The exchange rate paid by the commercial banks to purchase foreign exchange from the earners of foreign exchange.
(4) The exchange rate that equates the demand and supply in the foreign exchange market.
(R) Select from the following, the main source of Government revenue:

(1) Income from sale of Government properties.
(2) Profits from state enterprises.
(3) Tax revenue.
(4) Receipts from electricity bills.

(S) Which one of the following is not a domestic debt instrument of the Government:

(1) Treasury bills. 
(2) Development bonds. 
(3) Treasury bonds. 
(4) Letters of credit.

(T) You are provided with the following data pertaining to the national budget of a country:

<table>
<thead>
<tr>
<th></th>
<th>Rs. (billion)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Non tax revenue and grants</td>
<td>350</td>
</tr>
<tr>
<td>Capital expenditure</td>
<td>35</td>
</tr>
<tr>
<td>Tax income</td>
<td>25</td>
</tr>
<tr>
<td>Recurrent expenditure</td>
<td>280</td>
</tr>
<tr>
<td>Net lending</td>
<td>110</td>
</tr>
</tbody>
</table>

The overall budget deficit is:

(1) Rs.375 billion.   (2) Rs.50 billion.   (3) Rs.135 billion.   (4) Rs.220 billion.

(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 "Entrepreneurship"? (02 marks)

(ii) State three (03) features of Entrepreneurship. (03 marks)

(b) State five (05) advantages of the market economic system. (05 marks)

(c) In addition to basic economic problems, there are other economic problems in an economy. List five (05) such other economic problems. (05 marks)

(Total 15 marks)

03. (a) With the help of graphs, briefly explain "Change in Quantity Demanded" and "Change in Demand". (06 marks)

(b) State practical importance of price elasticity of demand. (05 marks)
(c) You are given the following demand and supply equations for a commodity.

\[
\begin{align*}
Q_d & = 180 - 3p \\
Q_s & = -20 + 2p
\end{align*}
\]

Qd = Quantity demanded  
Qs = Quantity supplied  
P = Price

(i) Calculate the Equilibrium Price.  
(ii) Calculate the Equilibrium Quantity.  

(Total 15 marks)

04. (a) With the help of a graph, briefly explain the characteristics of an indifference curve.  
(b) "When price of a commodity falls, consumer increases his demand for that commodity". Do you agree? Justify your answer.  
(c) List four (04) negative externalities of consumption.  

(Total 15 marks)

05. (a) List four (04) policies that can be adopted for Macro Economic Management and briefly explain two (02) of them.  
(b) You are provided with the following data pertaining to an economy in relation to National Income.

<table>
<thead>
<tr>
<th></th>
<th>Rs.(million)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gross Domestic Product (GDP) at factor cost prices</td>
<td>2,750</td>
</tr>
<tr>
<td>Indirect Taxes</td>
<td>300</td>
</tr>
<tr>
<td>Net factor income from abroad</td>
<td>(200)</td>
</tr>
<tr>
<td>Depreciation</td>
<td>100</td>
</tr>
<tr>
<td>Subsidies</td>
<td>100</td>
</tr>
<tr>
<td>Exports</td>
<td>240</td>
</tr>
</tbody>
</table>

Calculate the following:

(i) Gross Domestic Product (GDP) at Market Prices.  
(ii) Gross National Product (GNP) at Market Prices.  
(iii) Net National Product at Factor Cost Prices.  
(c) State four (04) limitations of national income accounts.  

(Total 15 marks)

06. (a) List five (05) functions of the Central Bank of Sri Lanka.  
(b) Explain the terms "Internal value of money" and "External value of money".  
(c) Briefly describe two (02) main causes for inflation.  

(Total 15 marks)

07. (a) State five (05) characteristics of a good tax system.  
(b) What are the objectives of the Government Budget?  
(c) State five (05) economic effects of an increase in foreign debt in a country.  

(Total 15 marks)