

THE ASSOCIATION OF ACCOUNTING TECHNICIANS OF SRI LANKA

FOUNDATION EXAMINATION - JANUARY 2012

(52) ECONOMICS

Time: 02 hours

21-01-2012
Afternoon
2.00 – 4.00

• **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 Paper will be provided.*
 (5) *100 Marks.*

No. of Pages : 06
No. of Questions : 07

SECTION - A

Multiple Choice Questions

All questions of this Section should be answered.

40 marks

01. Select from (1), (2), (3), (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) The Continuous Economic Activities in a country could be divided as:

- (1) Farming, Quarrying, Manufacturing.
- (2) Production, Distribution, Consumption.
- (3) Human wants, Resources, Scarcity.
- (4) Agriculture, Industry, Services.

(B) The meaning of “Human Capital” is:

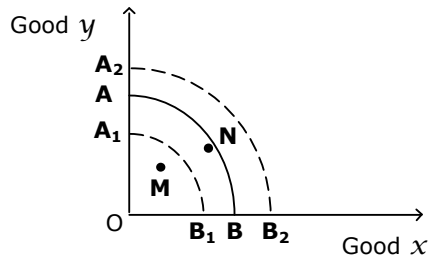
- (1) Expansion in the labour force.
- (2) Improved qualitative condition of labour.
- (3) Usage of the all man made resources in production.
- (4) Usage of mental or physical capacity of human for purpose of production.

(C) The price elasticity of demand for a commodity is inelastic, if price increase by 1%, the result is:

- (1) Less than 1% decrease in quantity demanded.
- (2) More than 1% decrease in quantity demanded.
- (3) 1% Proportionate change in quantity demanded.
- (4) A fall in total revenue.

- (D) Which one of the following would lead the supply curve of clothes to shift to the right?
- (1) An increase of consumers' income.
 - (2) A reduction in tariff on imported cotton used in garments manufacturing.
 - (3) A successful advertising campaign made by the Association of Apparel Manufacturers.
 - (4) An increase in the selling price of clothes.

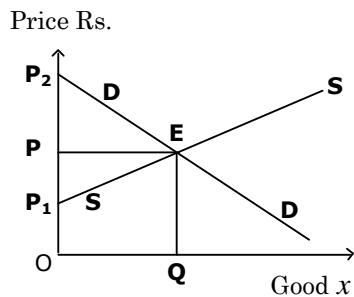
- (E) The diagram below shows the production possibility curve of goods x and y as **A** and **B**.



When it shifted to the **A₁ B₁** and **A₂ B₂**, the Economic Growth is shown by:

- (1) **M to N.**
 - (2) **N to M.**
 - (3) **A₁ B₁.**
 - (4) **A₂ B₂.**
- (F) What is meant by the “Indifference Map”?
- (1) It is a set of production possibility curves which gives different levels of production.
 - (2) It is a set of indifference curves which gives equal satisfaction.
 - (3) It is a set of indifference curves which gives different levels of satisfaction.
 - (4) It is a set of demand curves which shows different levels of demand.

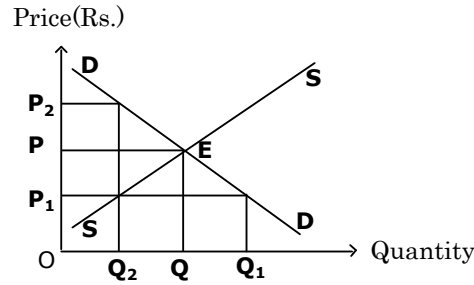
- (G) The following diagram shows the supply and the demand curves for good x .



The Producer Surplus is shown by the area of:

- (1) **PP₂E.**
- (2) **P₁PE.**
- (3) **P₁OQE.**
- (4) **OPEQ.**

(H) The following diagram shows the supply and the demand curves for a commodity:



If the government imposes a maximum price at P_1 , the excess demand is:

- (1) $Q - Q_1$ (2) $Q_1 - Q_2$ (3) $Q_2 - Q$ (4) $O - Q_2$

(I) What is meant by “Elasticity of Demand”?

- (1) An increase in price induces consumers to spend more on the product.
- (2) An increase in price brings about a decrease in the quantity demanded.
- (3) The responsiveness of change in expenditure to a change in price.
- (4) The responsiveness of the quantity demanded to a change in price, income and price of other goods that affect demand.

(J) According to the Annual Report of the Central Bank of Sri Lanka for the year 2010, per capita income (as per Gross Domestic Product) in Sri Lanka for the year 2010 was:

- (1) US \$ 2,057. (2) US \$ 2,014. (3) US \$ 2,033. (4) US \$ 2,399.

(K) Select from the following the sentence which describes “Intermediate Good”:

- (1) The goods that can be used more than once.
- (2) The goods which are satisfying directly consumer’s needs and wants.
- (3) The goods which are used as raw materials and inputs for producing finished goods.
- (4) The goods which are productive but depreciate due to the usage.

(L) From the following what can be regarded as withdrawal from the circular flow of income:

- | | |
|-----------------------------|-----------------|
| (1) Exports. | (2) Investment. |
| (3) Government expenditure. | (4) Taxation. |

- (R) Which one of the following is **not** a current expenditure of the government?
- (1) Interest payments on public debt.
 - (2) Drought relief payments made by the government.
 - (3) Salaries and wages paid to the public servants by the government.
 - (4) Acquisitions of real assets by the government.
- (S) Which one of the following is **not** a characteristic of Indirect Tax?
- (1) The taxes can be always shifted to another party.
 - (2) It cannot be shifted to another party.
 - (3) Tax is paid only when goods are purchased.
 - (4) The taxes are generally regarded as regressive taxes.
- (T) Select from the following the principal benefit of highway projects in the economic development of a country:
- (1) Transportation can be provided with profitably.
 - (2) It is a vital for tourism industry.
 - (3) Decisive factor of balanced regional development.
 - (4) Transportation can be provided on time.
- (02 marks each, Total 40 marks)

SECTION - B

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

- 02.** (a) Explain how the basic economic problems are solved by the Centrally Planned Economy and the Mixed Economy? (09 marks)
- (b) List four(04) weaknesses of the Market Economic System. (04 marks)
- (c) List two(02) behaviours in Opportunity Cost. (02 marks)
- (Total 15 marks)
- 03.** (a) Distinguish between “Short-run” and “Long-run” in the theory of production. (04 marks)
- (b) With help of a graph, explain briefly short run equilibrium of monopoly. (05 marks)
- (c) List six(06) differences between perfect competition and monopoly. (06 marks)
- (Total 15 marks)

- 04.** (a) Explain briefly the conditions for consumer equilibrium under the marginal utility theory. (06 marks)
- (b) Explain briefly the income effect and substitution effect on a change in price. (06 marks)
- (c) State what are the determinants of elasticity of supply. (03 marks)
(Total 15 marks)
- 05.** (a) List main macro economic variables of a country. (04 marks)
- (b) Explain the difference between Gross National Product (GNP) at current prices and Constant prices. (05 marks)
- (c) (i) What is meant by Per-capita Income? (02 marks)
- (ii) Explain the limitations of per-capita income for measurement in standard of living of a country. (04 marks)
(Total 15 marks)
- 06.** (a) Explain the functions of money? (06 marks)
- (b) Describe “Near Money” and give two examples. (04 marks)
- (c) (i) What is “Demand Pull Inflation”? (02 marks)
- (ii) List three(03) reasons for a demand pull inflation of a country. (03 marks)
(Total 15 marks)
- 07.** (a) What are the main features of the Government Budget? (05 marks)
- (b) State the objectives of Taxation. (05 marks)
- (c) List economic consequences of government debt. (05 marks)
(Total 15 marks)