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) What is meant by “Specialization”?

(1) Producing the goods and services that are native to those countries in the region.
(2) A person engaging in an activity in which he can perform in the most efficient manner.
(3) Few countries produce enough goods for complete self-sufficiency.
(4) Acquiring workers who have special abilities and skills related to a particular function.

(B) Which one of the following circumstances is not relevant to a voluntary dissolution of a partnership?

(1) Achievement of the target or purpose.
(2) Bankruptcy / insolvency of a partner.
(3) By the consent of all the partners.
(4) Due to the bad habit or an indecent behavior of a partner.

(C) Which one of the following is not included in the contents of the Articles of Association?

(1) Names and addresses of all Directors. (2) Powers of Directors.
(3) Objectives of the company. (4) Rights and duties of shareholders.
(D) A person who can cancel the crossing of a cheque is:

2. Transferee.
3. Payee.
4. Drawer.

(E) Which one of the following is not a duty of a commercial bank?

1. To abide by any expressed mandates of customers.
2. To honour customers’ cheques.
3. To disclose information about customers’ affairs.
4. To render statement of accounts to customers periodically or upon request.

(F) Of the following, what function is not being performed by a registered finance company?

1. Accepting term deposits.
2. Granting loans.
3. Providing lease facilities.
4. Creation of money.

(G) The investment promotion zones are managed by:

1. Sri Lanka Chamber of Commerce.
2. Board of Investment of Sri Lanka.
4. Export Development Board.

(H) (a) Issue guarantees.
    (b) Provide re-finance facilities.
    (c) Undertake market studies on behalf of banks & financial institutions.

Of the above, services provided to banks and financial institutions by Sri Lanka Export Credit Insurance Corporation include:

1. (a) only.
2. (b) only.
3. (a) and (b) only.
4. All of the above.

(I) Which one of the following is non insurable?

1. Losses arising due to bad management decisions.
2. Cash in transit.
3. Losses due to thefts by employees.
4. None of the above.
(J) **Nimal** insures his motor vehicle valued at Rs.750,000/- with four(04) insurance companies at the following values:

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<tbody>
<tr>
<td>600,000</td>
<td>400,000</td>
<td>300,000</td>
<td>700,000</td>
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</table>

If Nimal’s motor vehicle was totally damaged by an accident, the amount of compensation paid by each of the insurance companies would be:

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<th></th>
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</thead>
<tbody>
<tr>
<td>600,000</td>
<td>150,000</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>300,000</td>
<td>200,000</td>
<td>150,000</td>
<td>100,000</td>
</tr>
<tr>
<td>187,500</td>
<td>187,500</td>
<td>187,500</td>
<td>187,500</td>
</tr>
<tr>
<td>225,000</td>
<td>150,000</td>
<td>112,500</td>
<td>262,500</td>
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(K) Which one of the following is correct in relation to internal foreign exchange market?

1. It is a market among the commercial banks.
2. The purpose of this market is to maintain adequate reserves of foreign exchange.
3. Transactions on these are based on letters of credit, travellers’ cheques and money orders.
4. All of the above.

(L) Money market securities are:

1. Short-term.  
2. Low risk.  
4. All of the above.

(M) Which one of the following is **not** a feature of corporate debentures?

1. They are issued by the Central Bank on behalf of the government. 
2. A long term debt instrument. 
3. Debentures are certified by third parties. 
4. Debentures are issued with interest and without interest.

(N) Select from the following, securities that are **not** available for investment in the Colombo Stock Exchange:

1. Non-voting Ordinary Shares.  
2. Share Warrants.  
3. Treasury Bonds.  
4. Debentures.
The Certificate of Origin, (a) must be signed by the exporter, in many countries, and validated by the Chamber of Commerce. (b) must be certified by an issuing body, attesting that the goods in a particular export shipment have been wholly produced, manufactured or processed in a particular country.

Select the correct statement out of the following:

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

Which one of the following is not an example for regional economic cooperation?

(1) World Trade Organization. (2) European Union.
(3) Latin American Trade Organization. (4) None of the above.

Terms of trade of a country declines when:

(1) Import prices are falling while export prices remain constant.
(2) Export prices are rising while import prices remain constant.
(3) Increase in export prices and decrease in import prices take place.
(4) Import prices are increasing at a faster rate than the rate at which the export prices are increasing.

Which one of the following is an example of a Trade Barrier?

(1) Bilateral trade agreements.
(2) Providing subsidies to local producers.
(3) Imposing tariffs on imports.
(4) All of the above.

Which of the following is not included in “Income Account” of the Balance of Payment Statement?

(1) Wages. (2) Rent income.
(3) Interest income. (4) Profits.

Foreign Exchange Rate is considered to be overvalued when:

(1) Actual rate is below the equilibrium rate.
(2) Real exchange rate is below the nominal rate.
(3) Actual rate is above the equilibrium rate.
(4) There is a surplus in the balance of payments.
02. (a) What are the strategies that can be adopted by the Government for promoting industries in Sri Lanka? (05 marks)

(b) State differences between a partnership and a joint venture. (05 marks)

(c) List five(05) features of a sole proprietorship. (05 marks)

(Total 15 marks)

03. (a) List five(05) benefits available for companies that are registered under Board of Investment (BOI). (05 marks)

(b) List advantages available from insurance agents to the following parties:

(i) Insurer. (05 marks)

(ii) Insured. (05 marks)

(c) What are the rules and regulations that should be followed by private insurance companies? (05 marks)

(Total 15 marks)

04. (a) State the difference between money market and capital market. (05 marks)

(b) Compare and contrast ordinary shares and preference shares as means of capital market instruments. (05 marks)

(c) List the measures taken by the Securities and Exchange Commission for the development of share market recently. (05 marks)

(Total 15 marks)

05. (a) How does a cheque differ from a bill of exchange? (05 marks)

(b) What are the sources of funds available to a Bank? (05 marks)

(c) (i) Differentiate a licensed commercial bank from a merchant bank. (05 marks)

(ii) State three(03) functions of a merchant bank. (05 marks)

(Total 15 marks)
06. (a) Details of production possibilities of corn and wheat by country A and B are given below.

<table>
<thead>
<tr>
<th>Country</th>
<th>Corn (MTs)</th>
<th>Wheat (MTs)</th>
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<tbody>
<tr>
<td>A</td>
<td>60</td>
<td>60</td>
</tr>
<tr>
<td>B</td>
<td>40</td>
<td>80</td>
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(i) Which country has the absolute advantage of producing corn? (01 mark)
(ii) Which country has the absolute advantage of producing wheat? (01 mark)
(iii) Calculate the opportunity cost of producing corn and wheat of each country. (02 marks)
(iv) Which country has the comparative advantage of producing corn? (01 mark)
(v) Which country has the comparative advantage of producing wheat? (01 mark)

(b) "Globalization encompasses a range of social, political, and economic changes".
What are the advantages and disadvantages of Globalization? (06 marks)

(c) State the factors that change the Real Exchange Rate. (03 marks)
(Total 15 marks)

07. Write short notes on the following:

(a) External Resources Gap.
(b) Forward exchange rate.
(c) External debt service ratio.
(d) Limited partner.
(e) Proximate cause. (03 marks each, Total 15 marks)