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) A country can produce two goods, foods and clothes, in the combinations given by the production possibility curve, NM below:

![Production Possibility Curve](image)

Point S of the above diagram shows:

1. Under utilization of resources.
2. Full employment of resources.
3. Optimal level of consumption.
4. Combination which cannot be achieved with the available resources.

B) What is meant by "Profit"?

1. The payment for use of capital.
2. The reward for entrepreneurship.
3. The payment made by the tenants to the owners for the use of land.
4. The payment made for the employment.
(C) Select from the following, the sentence which describes the concept “Short Run” in relation to production and cost in economics:

(1) It is a period of time less than one year.
(2) It is a period of time in which all factors are considered as variable.
(3) It is a period of time in which the level of production can be changed by changing variable factors to the fixed factors.
(4) All of the above.

(D) The price elasticity of demand of a good is inelastic. If its price increases, the effect to consumer expenditure is:

(1) Increase.  (2) Decrease.  (3) No change.  (4) None of the above.

(E) Select from the following, a characteristic of “Monopolistic Competition”:

(1) There are large number of sellers who produce differentiated products.
(2) There is a single supplier who supplies the total quantity demanded.
(3) There are large number of sellers who produce homogeneous products.
(4) Seller can divide the market for his product into various segments to charge different prices.

(F) Demand and Supply equations for a commodity are given below:

\[
\text{Demand (Qd)} = 40 - 6p \\
\text{Supply (Qs)} = -20 + 4p
\]

The equilibrium quantity of the commodity is:

(1) 6.  (2) 4.  (3) 10.  (4) 5.

(G) Select from the following the sentence which describes “Consumer Surplus”:

(1) The difference between the price that producers are willing to charge and the price that they actually sell.
(2) The difference between the total amount that consumers are willing to pay for commodities and the total amount that they actually paid.
(3) It occurs when the quantity supplied exceeds the quantity demanded.
(4) It occurs when the quantity demanded exceeds the quantity supplied.

(H) If the price of good \( x \) falls, the demand for good \( y \) rises. What is the relationship between good \( x \) and good \( y \)?

(1) \( x \) is a substitute good for \( y \).
(2) \( x \) is a normal good and \( y \) is an inferior good.
(3) \( x \) is a complementary good and \( y \) is a substitute good.
(4) \( x \) is a complementary good of \( y \).
(I) Of the following, an example for a positive externality of production is:

(1) Air pollution.
(2) Hazardous wastes.
(3) Development of infrastructure facilities.
(4) Road congestion.

(J) You are provided with the following data pertaining to an economy of a country:

<table>
<thead>
<tr>
<th></th>
<th>Rs. (billion)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gross domestic product (GDP)</td>
<td>40</td>
</tr>
<tr>
<td>Payments to abroad on factors</td>
<td>10</td>
</tr>
<tr>
<td>Depreciation</td>
<td>05</td>
</tr>
<tr>
<td>Imports</td>
<td>09</td>
</tr>
<tr>
<td>Exports</td>
<td>08</td>
</tr>
<tr>
<td>Factor income received from abroad</td>
<td>11</td>
</tr>
</tbody>
</table>

The Gross National Product (GNP) of the country is:

(1) Rs.41 billion.  (2) Rs.50 billion.  (3) Rs.34 billion.  (4) Rs.46 billion.

(K) Consider the following data relating to National Income of a country:

<table>
<thead>
<tr>
<th></th>
<th>Rs. (million)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Disposable gross national income</td>
<td>48,000</td>
</tr>
<tr>
<td>Private consumption</td>
<td>30,000</td>
</tr>
<tr>
<td>Government consumption</td>
<td>10,000</td>
</tr>
<tr>
<td>Gross investments</td>
<td>10,000</td>
</tr>
</tbody>
</table>

Based on the above data, National Savings of the country are:

(1) Rs.8,000 million.  (2) Rs.18,000 million.
(3) Rs.38,000 million.  (4) Rs.58,000 million.

(L) Select from the following the item which is not included in the Broad Money Supply:

(1) Notes and coins.  (2) Savings and time deposits.
(3) Demand deposits.  (4) Debentures.

(M) According to the Annual Report of the Central Bank of Sri Lanka for the year 2013, the per capita income of Sri Lanka for the year 2013 was:

(1) US $ 2,400.  (2) US $ 3,280.  (3) US $ 2,100.  (4) US $ 2,923.
What is meant by “Token Money”? 

(1) The money which has an intrinsic value equal to or greater than the face value.
(2) The money which has an intrinsic value less than the face value.
(3) The money which cannot be disclosed.
(4) The demand deposits of the public in commercial banks.

”Real External Value of Money” is: 

(1) The face value which is stated on the notes and coins for foreign transactions.
(2) The special value paid to foreign currencies for investment in domestic money market.
(3) The quantity of foreign currency notes that will be exchanged with a unit of the domestic currency.
(4) The amount of goods and services that can be purchased in a foreign market with a unit of the domestic currency.

Select from the following, an immediate effect of increase in circulation of money among the general public: 

(1) Increase in the demand for goods and services.
(2) Decrease in the standard of living of the general public.
(3) Increase in the external resources of the country.
(4) Increase in the production of the country.

Floating Exchange Rate means: 

(1) The rate of exchange determined by Commercial Banks.
(2) The rate of exchange determined by the World Bank.
(3) The rate of exchange which depends on supply and demand for foreign exchange.
(4) The rate of exchange determined by the Government.

Which one of the following is not a characteristic of a Good Tax System? 

(1) Equity.  (2) Certainty.  (3) Inconvenience.  (4) Simplicity.

Select from the following the most correct statement in relation to “Tax Holiday”: 

(1) Reduction of taxes from certain industries or businesses or commodities.
(2) Certain industries and businesses are fully exempted from tax.
(3) The same income should not be taxed twice.
(4) Certain industries or businesses are exempted from taxation for a specific period of time.
(T) Select from the following, a short term domestic debt instrument of the government:

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

(02 marks each, Total 40 marks)

SECTION - B

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

**02.**  
(a) Briefly explain three (03) reasons for the problem of choice faced by all economies.  
(06 marks)

(b) State five (05) characteristics of a Mixed Economy.  
(05 marks)

(c) Briefly explain the terms “Income Effect” and “Substitution Effect”.  
(Total 15 marks)

**03.**  
(a) (i) What is meant by “Law of Supply”?  
(02 marks)

(ii) State four (04) determinants of supply (other than its price affecting the supply).  
(04 marks)

(b) With the help of a graph, explain the relationship between the market demand curve and the firm’s demand curve in a perfect competitive market.  
(05 marks)

(c) “Monopolist earns super normal profits in the long run as well as in the short run.”  
Can you agree with this statement? Justify your answer.  
(04 marks)

(Total 15 marks)

**04.**  
(a) (i) What is the “Budget Line” in relation to consumer behaviour?  
(03 marks)

(ii) Assume that there are two (02) goods $x$ and $y$. If the price of good $x$ falls while the price of good $y$ and income remain constant, show the effect to the budget line with the help of diagram.  
(03 marks)

(b) Explain why the Indifference Curve Analysis is better than Utility Theory.  
(04 marks)

(c) (i) What is meant by “Returns to Scale”.  
(02 marks)

(ii) State stages of returns to scale.  
(03 marks)

(Total 15 marks)
05. (a) Briefly explain the three (03) approaches (methods) used to compute the national income of a country. (06 marks)

(b) The table below shows data relating to national income of a country for the year 2013.

<table>
<thead>
<tr>
<th>Components</th>
<th>Rs. Million at current prices</th>
</tr>
</thead>
<tbody>
<tr>
<td>Private consumption</td>
<td>15,000</td>
</tr>
<tr>
<td>Government consumption</td>
<td>12,000</td>
</tr>
<tr>
<td>Gross investment</td>
<td>8,000</td>
</tr>
<tr>
<td>Exports</td>
<td>1,000</td>
</tr>
<tr>
<td>Imports</td>
<td>2,000</td>
</tr>
<tr>
<td>Net factor income from abroad</td>
<td>1,640</td>
</tr>
<tr>
<td>Depreciation</td>
<td>2,000</td>
</tr>
</tbody>
</table>

- Gross National Product (GNP) at constant prices in 2012 was Rs.18,000/- million.
- Price index for the year 2013 was 180.

By using the above data, calculate:

(i) The Gross National Product (GNP) for the year 2013. (05 marks)
(ii) The real GNP growth rate for the year 2013. (04 marks)
(Total 15 marks)

06. (a) Explain the difference between “Intrinsic Value” and “Face Value” in relation to money. (03 marks)

(b) (i) What is meant by “Demand for Money”? (02 marks)
(ii) Briefly explain the three (03) motives of demand for money. (06 marks)

(c) State four (04) steps that can be adopted to control the inflation in a country. (04 marks)
(Total 15 marks)

07. (a) State four (04) strategies that can be adopted by the government to achieve an equitable distribution of income. (04 marks)

(b) (i) What is meant by “Overall Budget Deficit”? (02 marks)
(ii) List two (02) each of expansionary sources and non-expansionary sources to finance a budget deficit. (04 marks)

(c) State five (05) main reasons to achieve successful economic growth in Sri Lanka during the last few years. (05 marks)
(Total 15 marks)