



ASSOCIATION OF ACCOUNTING TECHNICIANS OF SRI LANKA

AA1 EXAMINATION - JANUARY 2017

(AA13) ECONOMICS FOR BUSINESS AND ACCOUNTING

• **Instructions to candidates** (Please Read Carefully):

- (1) **Time allowed:** Reading - 15 minutes
Writing - 03 hours.

28-01-2017
Afternoon
[1.45 – 5.00]

- (2) **All questions should be answered.**
- (3) **Answers should be in one language, in the medium applied for, in the booklets provided.**
- (4) **Submit all workings and calculations. State clearly assumptions made by you, if any.**
- (5) **Use of Non-programmable calculators is only permitted.**
- (6) **Graph Paper will be provided.**
- (7) **Action Verb Check List with definitions is attached. Each question begins with an action verb excluding OTQ's. Candidates should answer the questions based on the definition of the verb given in the Action Verb Check List.**
- (8) **100 Marks.**

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

SECTION A

Objective Test Questions (OTQs)

Twenty (20) compulsory questions

(Total 40 marks)

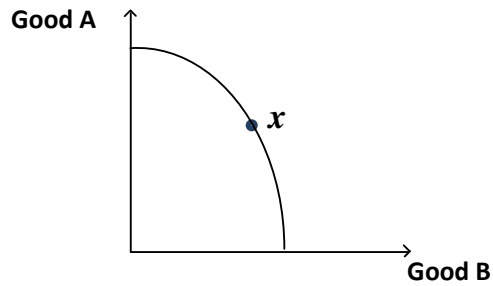
Question 01

Select the most correct answer for question No. 1.1 to 1.10. Write the number of the selected answer in your answer booklet with the number assigned to the question.

1.1 The Law of Supply explains:

- (1) the relationship between change in supply and change in income.
- (2) the relationship between the price and quantity supplied.
- (3) the relationship between change in quantity supplied and change in quantity demanded.
- (4) the relationship between the quantity supplied and the quantity demanded.

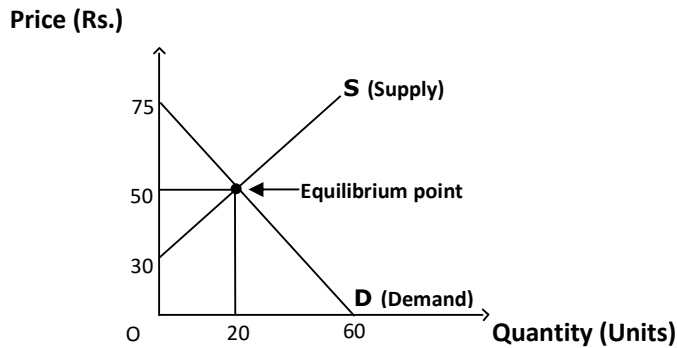
1.2 The following diagram shows the production possibility curve of a country:



Point x of the above diagram shows:

- (1) under-utilization of resources.
- (2) an unattainable combination of goods.
- (3) full employment of resources.
- (4) a rapid rate of future economic growth.

1.3 The following diagram shows the demand and supply curves of a commodity:



The Consumers Surplus is:

- (1) Rs.250/-
- (2) Rs.500/-
- (3) Rs.650/-
- (4) Rs.750/-

1.4 When the Price of tea falls by 8%, the quantity demanded for coffee declines by 2%. The Cross price elasticity of demand between coffee and tea is:

- (1) - 0.25
- (2) + 2.0
- (3) + 4.0
- (4) + 0.25

1.5 Which one of the following is a purpose for imposing indirect taxes?

- (1) Generating tax revenue for the government.
- (2) Discouraging consumption of harmful products.
- (3) Encouraging consumption of certain goods.
- (4) All of the above.

1.6 Which one of the following is a characteristic of Public Goods?

- (1) Rivalry in consumption.
- (2) Non- Excludability.
- (3) Profitability of the good.
- (4) Produced by the private sector.

1.7 Which one of the following is **not** a main objective of the government budget?

- | | |
|--|---|
| (1) Efficient allocation of resources. | (2) Increase in gross domestic savings. |
| (3) Re-distribution of income. | (4) Maintenance of economic stability. |

1.8 According to the Annual Report of the Central Bank of Sri Lanka for the year 2015, the per-capita income in Sri Lanka for the year 2015 was:

- | | |
|------------------|------------------|
| (1) US \$ 3,280. | (2) US \$ 3,924. |
| (3) US \$ 2,900. | (4) US \$ 3,700. |

1.9 Which one of the following is a leakage from the Circular Flow of National Income?

- | | |
|-----------------------------|--------------|
| (1) Investments. | (2) Savings. |
| (3) Government expenditure. | (4) Exports. |

1.10 Capital accumulation of an economy occurs when:

- (1) there is specialization of labour.
- (2) there are modern production techniques.
- (3) an economy increases its stock of capital.
- (4) there is an improvement in the quality of products.

*State whether each of the following statements from question No.1.11 to 1.15 is **TRUE** or **FALSE**. Write the answer (True/False) in your answer booklet with the number assigned to the question.*

1.11 A rise in the demand for a commodity without change in supply causes an increase in both the equilibrium price and the equilibrium quantity of that commodity.

1.12 Under the oligopoly, there are large number of producers / sellers and customers in the market.

1.13 The main reason for government to intervene in the market economy is to correct market failures.

1.14 Fixed Exchange Rate is determined by the Foreign Exchange Market through supply and demand for that particular currency relative to the other currencies.

1.15 Only economic aspect is considered when measuring the sustainable development of a country.

Select the correct word/words from those given within brackets to fill in the blanks of question No. 1.16 to 1.20. Write the selected word/words in your answer booklet with the number assigned to the question.

- 1.16 Consumers attempt to maximize their (*utility / profits*).
- 1.17 Price floors are imposed by the government to protect (*producers / consumers*).
- 1.18 (*Fiscal policy / Monetary policy*) focuses on government spending and revenue policies that influence macro-economic conditions.
- 1.19 If a country can produce a commodity at a lower opportunity cost than that of another country, it is known as (*absolute advantage / comparative advantage*).
- 1.20 If output increases in a smaller proportion than the increase in all input, it is identified as (*increasing returns to scale / decreasing returns to scale*).
- (02 marks each, Total 40 marks)

End of Section A

SECTION B

Four (04) compulsory questions
(Total 40 marks)

Question 02

- (a) (i) **List** main economic resources of an economy. (02 marks)
- (ii) **Explain** the concept of opportunity cost with an example. (03 marks)
- (b) **State** five(05) characteristics of market economic system. (05 marks)
- (Total 10 marks)

Question 03

- (a) **State** two(02) institutions included in the Financial System in Sri Lanka. (02 marks)
- (b) (i) **Explain** what is meant by “Monetary Policy”. (04 marks)
- (ii) **List** four(04) instruments of the Monetary Policy. (04 marks)
- (Total 10 marks)

Question 04

- (a) **Explain** what is meant by “the supply of money”. (03 marks)
- (b) (i) **List** two(02) causes for inflation. (02 marks)
- (ii) **State** five(05) consequences for a country like Sri Lanka due to increase in inflation rate. (05 marks)
- (Total 10 marks)

Question 05

You are provided with the following data pertaining to an economy in relation to National Income for a period of one year:

	Rs. million
Gross Domestic Product (GDP) at factor cost prices	3,250
Indirect taxes	175
Net Factor Income From Abroad	250
Capital Depreciation	150
Subsidies	125
Exports	320

You are required to:

(a) Calculate the following:

- (i) Gross Domestic Product (GDP) at Market Price. (03 marks)
- (ii) Gross National Product (GNP) at Market Price. (02 marks)
- (iii) Net National Product (NNP) at Market Price. (01 mark)

(b) State four(04) key macro-economic objectives that can be adopted by a country. (04 marks)
(Total 10 marks)

End of Section B

SECTION C

A compulsory question.

(Total 20 marks)

Question 06

A market is where prospective buyers and sellers interact with each other to execute an effective transaction. The behavior of the buyers are driven by the satisfaction that they can enjoy through consumption of goods & services.

- (A) (a) (i) State the difference between “the short run” and “the long run” in relation to production and costs. (04 marks)
- (ii) Explain with the help of a graph, how a perfectly competitive firm maximizes its profits in the short run. (05 marks)

(b) You are given the following demand and supply equations for a commodity:

$$Q_d = 2,800 - 25p$$

$$Q_s = -200 + 100p$$

Q_d	=	Quantity Demanded
Q_s	=	Quantity Supplied
P	=	Price

- (i) Calculate the Equilibrium Price of the commodity. (03 marks)
- (ii) Calculate the Equilibrium Quantity of the commodity. (02 marks)

(B) Explain three(03) advantages of International Trade. (06 marks)
(Total 20 marks)

End of Section C

ACTION VERB CHECK LIST

Knowledge Process	Verb List	Verb Definitions
Level 01 Comprehension Recall & explain important information	Define	Describe exactly the nature, scope, or meaning.
	Draw	Produce (a picture or diagram).
	Identify	Recognize, establish or select after consideration.
	List	Write the connected items one below the other.
	Relate	To establish logical or causal connections.
	State	Express something definitely or clearly.
	Calculate/Compute	Make a mathematical computation
	Discuss	Examine in detail by argument showing different aspects, for the purpose of arriving at a conclusion.
	Explain	Make a clear description in detail revealing relevant facts.
	Interpret	Present in an understandable terms.
	Recognize	To show validity or otherwise, using knowledge or contextual experience.
Record	Enter relevant entries in detail.	
Summarize	Give a brief statement of the main points (in facts or figures).	

Knowledge Process	Verb List	Verb Definitions
Level 02 Application Use knowledge in a setting other than the one in which it was learned / Solve closed-ended problems	Apply	Put to practical use.
	Assess	Determine the value, nature, ability, or quality.
	Demonstrate	Prove, especially with examples.
	Graph	Represent by means of a graph.
	Prepare	Make ready for a particular purpose.
	Prioritize	Arrange or do in order of importance.
	Reconcile	Make consistent with another.
	Solve	To find a solution through calculations and/or explanation.

Knowledge Process	Verb List	Verb Definitions
Level 03 Analysis Draw relations among ideas and compare and contrast / Solve open-ended problems.	Analyze	Examine in detail in order to determine the solution or outcome.
	Compare	Examine for the purpose of discovering similarities.
	Contrast	Examine in order to show unlikeness or differences.
	Differentiate	Constitute a difference that distinguishes something.
	Outline	Make a summary of significant features.