Instructions to candidates (Please Read Carefully):

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

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.**

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 Limited availability of resources to meet human needs and wants is known as:

   (1) Scarcity.  
   (2) Opportunity cost.  
   (3) Economies of Scale.  
   (4) Choice.

1.2 Which one of the following is a characteristic of an indifference curve?

   (1) Two indifference curves do not intersect with each other.  
   (2) An indifference curve slopes downward from left to right.  
   (3) The slope of the indifference curve is known as the Marginal Rate of Substitution (MRS).  
   (4) All of the above.
1.3 Which one of the following is not a characteristic of perfect competition?

(1) There are large number of sellers.
(2) It sells homogeneous products.
(3) Any seller is free to enter the market at any time.
(4) It earns only normal profits in the short run.

1.4 Select from the following, the incorrect statement in relation to the long run:

(1) Factors of production are divided as fixed factors and variable factors.
(2) The firm is able to change all the factors.
(3) There are no fixed factors of production.
(4) Returns to scale operate in the long run.

1.5 The aggregate of Narrow Money Supply and time and saving deposits held by the public at commercial banks is known as:

(1) Monetary base. (2) Broad Money Multiplier.
(3) Consolidated Broad Money Supply. (4) Broad Money Supply.

1.6 Which one of the following is not a function of commercial banks?

(1) Accepting deposits from public. (2) Providing safety vaults for individuals.
(3) Providing credit facilities. (4) Currency issuance and management.

1.7 Which one of the following is not a motive for demanding money?

(1) Transactions motive. (2) Cost motive.
(3) Precautionary motive. (4) Speculative motive.

1.8 Which one of the following is an instrument of the quantitative control for the monetary policy of the Central Bank of Sri Lanka?

(1) Portfolio ceilings. (2) Provision of refinance facilities.
(3) Bank rate policy. (4) Moral suasion.

1.9 The banks have to face the challenge of maintaining the balance between:

(1) Liquidity and interest rate. (2) Liquidity and profitability.
(3) Profitability and deposits. (4) Profitability and inflation.
1.10 According to the Annual Report of the Central Bank of Sri Lanka for the year 2016, the per capita income in Sri Lanka for the year 2016 was:

(1) US $ 3,821/-  (2) US $ 3,924/-  (3) US $ 3,280/-  (4) US $ 3,835/-.

State whether each of the following statements in 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 When the proportionate increase in output is higher than the proportionate increase in inputs there will be decreasing returns to scale.

1.12 Marginal cost refers to the cost per unit of output in the given period.

1.13 A main objective of the Central Bank of Sri Lanka is maintaining economic and price stability.

1.14 When a firm is maximizing profit, its Marginal Revenue (MR) is equal to Marginal Cost (MC).

1.15 The Central Bank of Sri Lanka stipulates that the commercial banks should keep a certain proportion of deposits as reserves.

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 In a ..................... (market / planned) economy, the fundamental economic problems are resolved through the use of price mechanism.

1.17 When the ..................... (marginal production / average production) becomes zero, the total production is maximized.

1.18 ..................... (Producers’ surplus / Consumers’ surplus) is the difference between the equilibrium price of a commodity, and the price at which the supplier is prepared to sell.

1.19 Gross Domestic Product at constant prices (2002) is Rs.2,500 billion for year 2015 and Gross Domestic Product at constant prices (2002) is Rs.2,600 billion for the year 2016. Economic growth rate in 2016 is ..................... (2% / 4%).

1.20 The increase of real Gross Domestic Product of an economy over the time is known as ..................... (Economic Development / Economic Growth).

(02 marks each, Total 40 marks)

End of Section A
**SECTION B**

Four (04) compulsory questions

(Total 40 marks)

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**Question 02**

(a) **Explain** the four (04) factors of production (economic resources). (06 marks)

(b) You are given the following demand \( Q_d \) and supply equations \( Q_s \) for a commodity.

\[
Q_d = 100 - 2p \\
Q_s = -50 + 3p.
\]

(i) **Calculate** the Equilibrium Price of the commodity. (02 marks)

(ii) **Calculate** the Equilibrium Quantity of the commodity. (02 marks)

(Total 10 marks)

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**Question 03**

(a) **Explain** what is meant by the “law of Diminishing Marginal Utility” with an example. (06 marks)

(b) **State** four (04) determinants of demand. (04 marks)

(Total 10 marks)

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**Question 04**

(a) **State** four (04) characteristics of the Government Budget. (04 marks)

(b) **Explain** the consequences of imposing a unit tax for a commodity by the government as an indirect tax. (06 marks)

(Total 10 marks)

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**Question 05**

(a) **Explain** the difference between comparative advantage and absolute advantage. (04 marks)

(b) **Explain** three (03) disadvantages of international trade. (06 marks)

(Total 10 marks)

End of Section B
SECTION C
A compulsory question.  
(Total 20 marks)

Question 06

(A) You are given the following hypothetical data relating to national accounts of an economy for one year period:

<table>
<thead>
<tr>
<th>Item</th>
<th>Rs. million</th>
</tr>
</thead>
<tbody>
<tr>
<td>Private Consumption Expenditure</td>
<td>1,000</td>
</tr>
<tr>
<td>Government Consumption Expenditure</td>
<td>1,500</td>
</tr>
<tr>
<td>Gross Domestic Capital Formation</td>
<td>2,500</td>
</tr>
<tr>
<td>Net Exports</td>
<td>1,300</td>
</tr>
<tr>
<td>Net factor income from abroad (Net foreign primary income)</td>
<td>650</td>
</tr>
<tr>
<td>Capital Depreciation</td>
<td>500</td>
</tr>
</tbody>
</table>

Using the above information,

You are required to,

Calculate the following:

(a) Gross Domestic Expenditure. (04 marks)

(b) Gross Domestic Product (GDP) at market prices. (02 marks)

(c) Gross National Product (GNP) at market prices. (02 marks)

(d) Net National Product (NNP) at market prices. (02 marks)

(B) In a country there are two main macro-economic policies as Monetary Policy and Fiscal Policy.

You are required to,

Explain what is meant by the Fiscal Policy with an example for the fiscal policy instruments. (04 marks)

(C) A persistent rise in the general price level of a country is known as inflation. Demand pull inflation and cost push inflation are main causes of inflation.

You are required to:

(a) Explain the demand pull inflation. (03 marks)

(b) State three (03) steps to be taken by a country for reducing the inflation. (03 marks)

(Total 20 marks)
## ACTION VERB CHECK LIST

<table>
<thead>
<tr>
<th>Knowledge Process</th>
<th>Verb List</th>
<th>Verb Definitions</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Level 01</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Comprehension</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Recall &amp; explain important information</td>
<td>Define</td>
<td>Describe exactly the nature, scope, or meaning.</td>
</tr>
<tr>
<td></td>
<td>Draw</td>
<td>Produce (a picture or diagram).</td>
</tr>
<tr>
<td></td>
<td>Identify</td>
<td>Recognize, establish or select after consideration.</td>
</tr>
<tr>
<td></td>
<td>List</td>
<td>Write the connected items one below the other.</td>
</tr>
<tr>
<td></td>
<td>Relate</td>
<td>To establish logical or causal connections.</td>
</tr>
<tr>
<td></td>
<td>State</td>
<td>Express something definitely or clearly.</td>
</tr>
<tr>
<td></td>
<td>Calculate/Compute</td>
<td>Make a mathematical computation</td>
</tr>
<tr>
<td></td>
<td>Discuss</td>
<td>Examine in detail by argument showing different aspects, for the purpose of arriving at a conclusion.</td>
</tr>
<tr>
<td></td>
<td>Explain</td>
<td>Make a clear description in detail revealing relevant facts.</td>
</tr>
<tr>
<td></td>
<td>Interpret</td>
<td>Present in an understandable terms.</td>
</tr>
<tr>
<td></td>
<td>Recognize</td>
<td>To show validity or otherwise, using knowledge or contextual experience.</td>
</tr>
<tr>
<td></td>
<td>Record</td>
<td>Enter relevant entries in detail.</td>
</tr>
<tr>
<td></td>
<td>Summarize</td>
<td>Give a brief statement of the main points (in facts or figures).</td>
</tr>
<tr>
<td><strong>Level 02</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Application</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Use knowledge in a setting other than the one in which it was learned / Solve closed-ended problems</td>
<td>Apply</td>
<td>Put to practical use.</td>
</tr>
<tr>
<td></td>
<td>Assess</td>
<td>Determine the value, nature, ability, or quality.</td>
</tr>
<tr>
<td></td>
<td>Demonstrate</td>
<td>Prove, especially with examples.</td>
</tr>
<tr>
<td></td>
<td>Graph</td>
<td>Represent by means of a graph.</td>
</tr>
<tr>
<td></td>
<td>Prepare</td>
<td>Make ready for a particular purpose.</td>
</tr>
<tr>
<td></td>
<td>Prioritize</td>
<td>Arrange or do in order of importance.</td>
</tr>
<tr>
<td></td>
<td>Reconcile</td>
<td>Make consistent with another.</td>
</tr>
<tr>
<td></td>
<td>Solve</td>
<td>To find a solution through calculations and/or explanation.</td>
</tr>
<tr>
<td><strong>Level 03</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Analysis</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Draw relations among ideas and compare and contrast / Solve open-ended problems</td>
<td>Analyze</td>
<td>Examine in detail in order to determine the solution or outcome.</td>
</tr>
<tr>
<td></td>
<td>Compare</td>
<td>Examine for the purpose of discovering similarities.</td>
</tr>
<tr>
<td></td>
<td>Contrast</td>
<td>Examine in order to show unlikeness or differences.</td>
</tr>
<tr>
<td></td>
<td>Differentiate</td>
<td>Constitute a difference that distinguishes something.</td>
</tr>
<tr>
<td></td>
<td>Outline</td>
<td>Make a summary of significant features.</td>
</tr>
</tbody>
</table>