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) Select from the following, the main process of an economic activity:
   (1) Unlimited wants, limited resources and scarcity.
   (2) Land, labour and capital.
   (3) Production, distribution and consumption.
   (4) Utility, marginal utility and consumption.

(B) Of the following, which can be considered as an economic good?
   (1) Sunlight used for drying fish.
   (2) River water.
   (3) Uniforms given free by the Central Government.
   (4) All of the above.

(C) Select from the following, the most correct reason for the government to interfere in the market economy:
   (1) To secure employment.
   (2) To maximize profitability.
   (3) To maintain capital output ratio of the country.
   (4) To protect the consumer or producer.

(D) An example for reproductive natural resource is:
(E) Select from the following, the most appropriate definition for “Productivity”:

(1) Productivity is the output of improved labour employed in production.
(2) Productivity is the output of modern technology used in production.
(3) Productivity is the output per unit of input employed in the production process.
(4) Productivity is the help given to maximise the production capacity.

(F) Which one of the following defines the Income Elasticity of demand of good \( y \)?

(1) \[
\frac{\text{Quantity demanded of good } y}{\text{Income of the consumer}}
\]

(2) \[
\frac{\text{Percentage change in quantity demanded of all other goods}}{\text{Percentage change in quantity demanded of good } y}
\]

(3) \[
\frac{\text{Percentage change in income of the consumer}}{\text{Percentage change in quantity demanded of good } y}
\]

(4) \[
\frac{\text{Percentage change in quantity demanded of good } y}{\text{Percentage change in income of the consumer}}
\]

(G) Select from the following diagram, the point which maximizes the satisfaction of consumer:

![Diagram](image)

(1) Point A.  (2) Point B.
(3) Point C.  (4) None of the above.

(H) Select from the following, the correct statement in relation to substitution effect:

(1) It explains the relationship between the market price and the quantity demanded.
(2) The fall in quantity demanded with the rise in price.
(3) The change in demand with the change in income.
(4) When the price of a commodity falls, a certain proportion of the demand for other goods will be diverted to the commodity in which the price has fallen.
(I) The diagram below shows the demand and supply curves of a commodity. The equilibrium point is at A.

If the government imposes a maximum selling price at Rs.20/-, the excess demand is:

(1) 200. (2) 300. (3) 100. (4) 400.

(J) According to the Annual Report of the Central Bank of Sri Lanka for the year 2013, the rate of unemployment in Sri Lanka for the year 2013 was:

(1) 5.6% (2) 6.9% (3) 4.4% (4) 6.2%

(K) Select from the following, the sentence which describes the “computation of national income at Factor Cost Prices”:

(1) Computation of national income based on the prices paid at the market.
(2) Computation of national income based on value of the final product.
(3) Computation of national income based on the prices paid for factors of production.
(4) Computation of national income based on the value added in each industry.

(L) Select from the following, the measure that cannot be considered to reduce demand pull inflation:

(1) Reduction of loans obtained by the government from the Central Bank.
(2) Imposing more stringent controls on bank lending.
(3) Reducing interest rates.
(4) Reducing public expenditure.

(M) You are provided with the following data pertaining to National Income of a country:

<table>
<thead>
<tr>
<th>Description</th>
<th>Rs. (million)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Private consumption</td>
<td>10,000</td>
</tr>
<tr>
<td>Government consumption</td>
<td>5,000</td>
</tr>
<tr>
<td>Exports</td>
<td>2,000</td>
</tr>
<tr>
<td>Imports</td>
<td>3,000</td>
</tr>
<tr>
<td>Gross investments</td>
<td>3,000</td>
</tr>
<tr>
<td>Depreciation</td>
<td>1,000</td>
</tr>
<tr>
<td>Net factor income from abroad</td>
<td>(1,000)</td>
</tr>
</tbody>
</table>

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

(1) Rs.15,000 million. (2) Rs.16,000 million. (3) Rs.17,000 million. (4) Rs.20,000 million.
People hold cash because of its:
(1) Profitability. (2) Liquidity. (3) Security. (4) All of the above.

Out of the following, what is meant by “Colombo Consumer Price Index”?
(1) It is a measure of a weighted average price of a given basket of consumer goods and services of households in Colombo.
(2) It is a measure of a fall in the value of money.
(3) It is a measure of an average price level of the items imported to Colombo.
(4) It is an index calculated by the Colombo Stock Exchange to see changes in the share prices.

Financial institutions are monitored by:

Which one of the following is a money substitute?
(1) Treasury bills. (2) Demand deposits.
(3) Fixed deposits. (4) Credit cards.

Which one of the following is not an objective of the Government Budget?
(1) Efficient allocation of resources.
(2) Development of infrastructure facilities.
(3) Provision of capital transfers to the government institutions.
(4) Provision of facilities for economic growth and development.

Select from the following, a disadvantage of indirect taxes:
(1) Cannot be evaded.
(2) The tax payer is not aware of the payment of indirect taxes.
(3) Indirect taxes may be transferred to another party.
(4) Rise in the general price level.

Which one of the following is a capital expenditure of the government?
(1) Lending of Rs.100 million to a public corporation.
(2) Allocation of Rs.100 million to increase the salaries of the government employees.
(3) Allocation of Rs.100 million to construct a school building.
(4) Payment of Rs.100 million as drought relief.

(02 marks each, Total 40 marks)
SECTIO - N - B
Answer any four (04) questions only from this Section
60 marks

02. (a) (i) List the main production resources. (02 marks)
(ii) Explain the relationship between market for goods and services and market for production resources. (04 marks)

(b) State four (04) reasons for change in production possibility curve. (04 marks)

(c) (i) What is meant by “Transition Economies”? (02 marks)
(ii) List three (03) common indicators of transition process. (03 marks)

(Total 15 marks)

03. (a) The table below shows data for quantity of output, fixed cost and variable cost of a firm under perfect competition in the short run.

<table>
<thead>
<tr>
<th>Quantity (units)</th>
<th>Fixed Cost (Rs.)</th>
<th>Variable Cost (Rs.)</th>
</tr>
</thead>
<tbody>
<tr>
<td>0</td>
<td>55</td>
<td>0</td>
</tr>
<tr>
<td>1</td>
<td>55</td>
<td>30</td>
</tr>
<tr>
<td>2</td>
<td>55</td>
<td>53</td>
</tr>
<tr>
<td>3</td>
<td>55</td>
<td>74</td>
</tr>
<tr>
<td>4</td>
<td>55</td>
<td>105</td>
</tr>
<tr>
<td>5</td>
<td>55</td>
<td>155</td>
</tr>
<tr>
<td>6</td>
<td>55</td>
<td>227</td>
</tr>
</tbody>
</table>

By using the above data,
(i) Calculate Average Cost (AC) and Marginal Cost (MC) of the output. (04 marks)
(ii) Draw the Average Cost (AC) and the Marginal cost (MC) curves using a graph sheet. (04 marks)
(iii) If the market price is Rs.60/- per unit, what is the quantity at profit maximization level? (03 marks)
(iv) Calculate the supernormal profit under (iii) above. (02 marks)

(b) State two (02) entry barriers in a monopoly market. (02 marks)

(Total 15 marks)

04. (a) What is expressed from the Indifference Curve convexing to the origin? (04 marks)

(b) Briefly explain three (03) determinants of demand. (06 marks)

(c) (i) What is meant by “Public Goods”? (02 marks)
(ii) State three (03) characteristics of public goods. (03 marks)

(Total 15 marks)
05. (a) Briefly explain the following with two(02) examples for each:
   (i) Injections to circular flow of national income.
   (ii) Leakages from circular flow of national income. (06 marks)

(b) (i) What is meant by “Per-Capita Income”? (02 marks)

   (ii) State four(04) matters of importance of Per Capita Income. (04 marks)

(c) State three(03) transactions which are **not** included in the calculation of national income. (03 marks)

(Total 15 marks)

06. (a) You are provided with the following data pertaining to the money supply of a country for a year:

<table>
<thead>
<tr>
<th></th>
<th>Rs. million</th>
</tr>
</thead>
<tbody>
<tr>
<td>Currency held by the public</td>
<td>320</td>
</tr>
<tr>
<td>Balances in resident and non-resident foreign currency accounts held by the public in commercial banks</td>
<td>337</td>
</tr>
<tr>
<td>Demand deposits held by the public</td>
<td>195</td>
</tr>
<tr>
<td>Time and Savings deposits held by the public in commercial banks</td>
<td>2,145</td>
</tr>
<tr>
<td>Time and Savings deposits held by the public in non-bank financial institutions</td>
<td>335</td>
</tr>
</tbody>
</table>

By using the above data, calculate,

(i) Narrow Money Supply (M₁). (04 marks)

(ii) Broad Money Supply (M₂). (02 marks)

(b) State four(04) characteristics of demand deposits (Current Accounts). (04 marks)

(c) Explain the difference between “Nominal Value of Money” and “Real Value of Money”. (05 marks)

(Total 15 marks)

07. (a) (i) What is meant by “Economic Stability”? (02 marks)

(ii) What are the policies that can be adopted by the government for economic stability? (04 marks)

(b) (i) What is meant by “Government Debt”? (02 marks)

(ii) State three(03) reasons for the government to obtain loans. (03 marks)

(c) State four(04) consequences for a country like Sri Lanka, due to increase in price of an essential food item in the international market. (04 marks)

(Total 15 marks)