



ASSOCIATION OF ACCOUNTING TECHNICIANS OF SRI LANKA

AA1 EXAMINATION - JULY 2015

(AA13) ECONOMICS FOR BUSINESS AND ACCOUNTING

25-07-2015
Afternoon
[1.00 – 3.00]

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

- (1) **Time:** 02 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.**

No. of Pages : 07
No. of Questions : 07

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 Which one of the following correctly describes the meaning of Scarcity in Economics?

- (1) Scarcity is the under utilization of resources to produce goods and services.
- (2) Scarcity is the alternative use of resources to produce goods and services.
- (3) Scarcity is the limited availability of resources in relation to human needs and unlimited wants.
- (4) Scarcity is the opportunity cost arising from a forgone commodity. (02 marks)

1.2 Production Possibility Curve shows:

- (1) The technical discovery affecting production of goods.
- (2) The maximum possible combinations of output of two kinds of products that could be produced by an economy with full employment of resources and the existing technology.
- (3) The economic growth of a country.
- (4) The allocation of resources more efficiently. (02 marks)

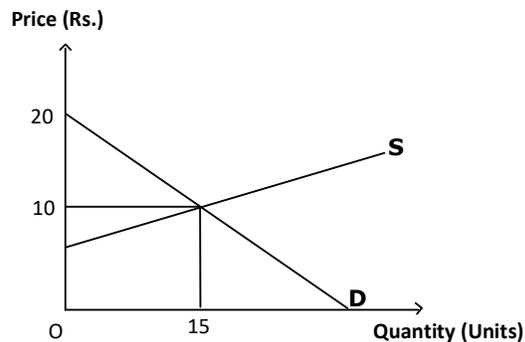
1.3 Basic economic problems are solved by price mechanism in:

- (1) a planned economy. (2) a market economy.
- (3) a mixed economy. (4) a transition economy. (02 marks)

1.4 When the price increases from Rs.10/- to Rs.15/-, quantity demanded of a commodity decreases from 2,500 units to 2,000 units. The price elasticity of demand of this commodity is:

- (1) Inelastic. (2) Elastic.
- (3) Unitary elastic. (4) Perfectly elastic. (02 marks)

1.5 The diagram below shows the demand and supply curves of a commodity:



Equilibrium price is Rs.10/- and equilibrium quantity is 15 units.

The consumer surplus is:

- (1) Rs.150/-. (2) Rs.300/-.
- (3) Rs.75/-. (4) Rs.100/-. (02 marks)

1.6 What is meant by “Black Money”?

- (1) Money transferred from person to person so that it has turned black.
- (2) Money which has passed so many people through legitimate process.
- (3) Money which has generated from illegal process that cannot be disclosed.
- (4) Money which has an intrinsic value less than the face value. (02 marks)

1.7 An objective of the Central Bank is:

- (1) Conduct of Fiscal Policies.
- (2) Lender of the last resort to the commercial banks.
- (3) Stabilization of the economy and the price level.
- (4) Management of the national debt. (02 marks)

1.8 According to the Annual Report of the Central Bank of Sri Lanka for the year 2014, the economic growth rate of Sri Lanka in 2014 was:

- (1) 5.4%
- (2) 7.4%
- (3) 6.4%
- (4) 8.4% (02 marks)

1.9 Which one of the following is an example of current transfers of the government?

- (1) Purchase of a machinery from Japan by the government.
- (2) Interest payment to a Pakistani by the government.
- (3) One way payment to a Sri Lankan by the government.
- (4) None of the above. (02 marks)

1.10 Select from the following, a function of Foreign Exchange Market:

- (1) Provides facilities to commercial banks for international transactions.
- (2) Provides infrastructure for the exchange of domestic currency with foreign currencies between buyers and sellers.
- (3) Determines the Fixed Exchange Rate of the country.
- (4) Provides infrastructure to transfer of foreign capital to developing countries. (02 marks)

*State whether each of the following statements from question Nos.1.11 to 1.15 is **TRUE** or **FALSE**. Write the selected answer (True/False) in your answer booklet with the number assigned to the question.*

1.11 There are some instances where Marginal Utility does not diminish up to a certain point. (02 marks)

1.12 At the minimum point of the Average Cost Curve, Average Cost is equal to Marginal Cost. (02 marks)

1.13 Per Capita Income of a country shows the equity distribution of national income. (02 marks)

1.14 The Flexible Exchange Rate is fixed by the Central Bank of a country. (02 marks)

1.15 Government imposes a minimum purchasing price for a particular agricultural product to protect farmers. (02 marks)

Select the correct word/words from those given within brackets to fill in the blanks of question No. 1.16 to 1.18. Write the selected word/words in your answer booklet with the number assigned to the question.

1.16 If the demand changes as a result of change in a determinant of demand other than its price, the demand curve (shifts to right or left / moves along the same demand curve). (02 marks)

1.17 With the rise in income of a consumer, if the demand for the good falls, the good is known as a (Normal / Giffen) good. (02 marks)

1.18 Under the (Progressive / Regressive) tax system, higher income earners are taxed at higher rates, while lower income earners are taxed at lower rates. (02 marks)

The following data should be used to answer questions 1.19 and 1.20. Write short answers to each of the questions in your answer booklet, with the number assigned to the question.

You are provided with the following data in relation to a firm under perfect competition:

Production (Units)	Average Cost (Rs.)	Marginal Cost (Rs.)
1	85	27.5
2	55	22.5
3	43.3	25
4	40	35
5	40	45
6	41.6	55
7	44.3	65

Assume market price is Rs.45/- per unit.

1.19 What is the quantity at profit maximization level? (02 marks)

1.20 How much is the supernormal profit of the firm? (02 marks)

End of Section A

SECTION B

Four (04) compulsory questions

(Total 32 marks)

Question 02

- (a) **Explain** with examples the difference between “Human Needs” and “Human Wants”. (04 marks)
- (b) **Discuss** why scarcity could be considered as the foundation of Economics. (04 marks)
- (Total 08 marks)

Question 03

- (a) **Explain** with the help of a graph, long run equilibrium of a firm under perfect competition. (04 marks)
- (b) **State** four(04) basic characteristics of the monopoly. (04 marks)
- (Total 08 marks)

Question 04

- (a) **Explain** briefly, what is meant by “Value of Money”. (04 marks)
- (b) **List** four(04) effects of a rise in the general price level of a country. (04 marks)
- (Total 08 marks)

Question 05

- (a) **Explain** briefly, what is meant by “Balance of Payments”. (03 marks)
- (b) **Summarize** five(05) balance of payments policies followed by Sri Lanka. (05 marks)
- (Total 08 marks)

End of Section B

SECTION C

Two (02) compulsory questions

(Total 28 marks)

Question 06

- (a) **Explain** with the help of a flow chart, the circular flow of income in a two sector economy. (04 marks)
- (b) **Identify** the difference between the calculation of Gross Domestic Product (GDP) at “Current Prices” and “Constant Prices”. (04 marks)
- (c) The table below shows hypothetical data relating to national accounts of an economy for one year period at Factor Cost Prices:

	Rs. million
(1) Agriculture, Livestock and Forestry	150
(2) Fishing	50
(3) Mining and Quarrying	89
(4) Manufacturing Industries	75
(5) Electricity, Gas and Water	40
(6) Construction	58
(7) Wholesale and Retail Trade	70
(8) Hotels and Restaurants	20
(9) Transport and Communication	60
(10) Banking, Insurance and Real Estates	40
(11) Ownership and Dwellings	10
(12) Government Services	10
(13) Private Services	13
(14) Net factor Income from Abroad	(10)
(15) Indirect Taxes	30
(16) Subsidies	20

Calculate the following:

- (i) Gross National Product (GNP) at Factor Cost Price. (04 marks)
- (ii) Gross National Product (GNP) at Market Price. (02 marks)
- (Total 14 marks)

Question 07

- (a) **Explain** the difference between “Economic Growth” and “Economic Development”. (04 marks)
- (b) **Identify** four(04) factors that contribute to achieve economic growth. (04 marks)
- (c) **Summarize** the main ways in which the government intervenes into the market to improve economic and social welfare. (06 marks)
- (Total 14 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.