



ASSOCIATION OF ACCOUNTING TECHNICIANS OF SRI LANKA

AA1 EXAMINATION - JULY 2016

(AA13) ECONOMICS FOR BUSINESS AND ACCOUNTING

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

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

23-07-2016  
Afternoon  
[1.45 – 5.00]

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

- (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** Which one of the following is a feature of “an economic resource”?

- (1) a resource which is given by nature.
- (2) a resource which has an opportunity cost.
- (3) a resource which is excess in supply.
- (4) a resource which can be supplied only by the public sector.

**1.2** What is meant by “Diminishing Marginal Utility”?

- (1) When a person consumes more and more of a given commodity, the marginal utility of the commodity eventually declines.
- (2) When a person consumes more and more of a given commodity, the marginal utility of other commodities eventually declines.
- (3) When a person consumes more and more of a given commodity, the total utility of the commodity is constant.
- (4) When a person consumes lesser of a given commodity, the marginal utility of the commodity eventually declines.

**1.3** As the price of a particular good rises from Rs.16/- to Rs.20/-, quantity demanded of that good falls from 80 units to 60 units. The price elasticity of demand of this good is:

- (1) 0.75                      (2) 1.0                                      (3) 0.8                                      (4) 1.25

**1.4** Basic economic problems exist because:

- (1) consumption increases with the increase of income.
- (2) of non-transferability of economic resources.
- (3) resources are insufficient to meet all wants.
- (4) All of the above.

**1.5** Which one of the following is a disadvantage of Indirect Taxes?

- (1) The person who pays the tax bears the burden.
- (2) Easy for the government to collect.
- (3) Inequality in the distribution of the tax burden.
- (4) Tax cannot be evaded.

**1.6** Which one of the following is **not** a function of the Central Bank of Sri Lanka?

- (1) Economic and price stability.                      (2) Public Debt Management.  
(3) Foreign Exchange Management.                      (4) Accept deposits from public.

**1.7** According to the Annual Report of the Central Bank of Sri Lanka for the year 2015, the Economic Growth rate in Sri Lanka for the year 2015 was:

- (1) 8%                      (2) 7.5%                                      (3) 6.2%                                      (4) 4.8%

**1.8** Gross National Income is calculated as:

- (1) Gross Domestic Income + Net Factor Income from Abroad.
- (2) Gross Domestic Income + Subsidies - Income Tax - Undistributed Business Profits.
- (3) Personal Income + Income Tax + Undistributed Business Profits.
- (4) Factor Income - Subsidies + Income Tax + Savings.

**1.9** What is meant by “an open economy”?

- (1) an economy that does not interact with the rest of the world.
- (2) an economy that interacts with the rest of the world.
- (3) an economy where government has imposed restrictions on imports, but not on exports.
- (4) an economy, where there is no market-orientation.

**1.10** Which one of the following is a qualitative control of the Monetary policy of the Central Bank of Sri Lanka?

- |                              |                             |
|------------------------------|-----------------------------|
| (1) Moral Suasion.           | (2) Open Market Operations. |
| (3) Statutory Reserve Ratio. | (4) Bank Rate Policy.       |

*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** Under the perfect competition, there is a single supplier of a commodity.

**1.12** Marginal Cost (MC) curve intersects the Average Cost (AC) curve at the minimum point of the Average Cost curve.

**1.13** Increasing returns to scale means that when all factors of production are increased in a given proportion, the output produced would increase in exactly the same proportion.

**1.14** A financial intermediary is an institution that links lenders with borrowers by attracting deposits at a given interest rate from lenders and then re-lending them to borrowers at a higher interest rate.

**1.15** The cost of a firm mainly includes two types of costs namely Fixed Cost and Variable Cost.

*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** If the supply curve of a commodity shifts leftward while no change occurs in the demand curve, the equilibrium price of the commodity ..... (*increases / decreases*).

**1.17** When prices of goods and services increase, the value of money ..... (*rises / falls*).

**1.18** When current year market prices are used to measure Gross Domestic Product (GDP), it is known as ..... (*Nominal GDP / Real GDP*).

**1.19** ..... (*Narrow Money supply ( $M_1$ ) / Monetary Base*) refers to the aggregate of the currency held by public and the demand deposits held by public at commercial banks.

**1.20** ..... (*Broad Money Multiplier / Broad Money Supply [ $M_2$ ]*) refers to the aggregate of Narrow Money Supply and time and savings deposits held by public at commercial banks.

(02 marks each, Total 40 marks)

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End of Section A

## **SECTION B**

Four (04) compulsory questions

(Total 40 marks)

### **Question 02**

- (a) (i) **State** the type of economic system you find in Sri Lanka. (01 mark)
- (ii) **State** three(03) reasons for having such an economic system as in above (i). (03 marks)
- (b) **Explain** the basic economic problems in an economy. (06 marks)
- (Total 10 marks)

### **Question 03**

- (a) (i) **Explain** what is meant by the “Overall Government Budget Deficit”. (03 marks)
- (ii) **State** three(03) sources of financing the government Budget Deficit. (03 marks)
- (b) **State** four(04) advantages of Public Enterprises. (04 marks)
- (Total 10 marks)

### **Question 04**

- (a) **Explain** three(03) functions of money. (06 marks)
- (b) **State** four(04) main functions of a Commercial bank. (04 marks)
- (Total 10 marks)

### **Question 05**

- (a) **Explain** what is meant by “Terms of Trade” in relation to International Trade. (04 marks)
- (b) (i) **Explain** what is meant by “Economic Growth”. (03 marks)
- (ii) **State** three(03) advantages of Economic Growth. (03 marks)
- (Total 10 marks)

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*End of Section B*

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## SECTION C

A compulsory question.

(Total 20 marks)

### Question 06

- (A) In the business world, firms operate under different market conditions according to which several types of market structures emerge. There are several market structures each of which has certain characteristics which distinguish it from other structures.

Four basic market structures, namely, perfect competition, monopoly, monopolistic competition and the oligopoly could be found in an economy.

- (a) **State** five(05) main characteristics of Monopoly. (05 marks)
- (b) **Explain** with the help of a graph, how a monopoly firm maximizes its profits in the short-run. (05 marks)
- (B) (a) **Explain** the difference between Gross Domestic Product (GDP) and Gross National Product (GNP). (04 marks)
- (b) The table below shows hypothetical data relating to national accounts of an economy for one year period:

	<b>Rs. million</b>
(1) Employment income	360,000
(2) Rent income	220,500
(3) Self-employment income	190,500
(4) Profit earned by the business sector	210,600
(5) Interest income	162,000
(6) Capital depreciation	130,600
(7) Subsidies	100,500
(8) Indirect taxes	120,300
(9) Net factor income from abroad	(94,000)

**Calculate** the Gross National Product (GNP) at Market Price.

(06 marks)  
(Total 20 marks)

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*End of Section C*

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## ACTION VERB CHECK LIST

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

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

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