



ASSOCIATION OF ACCOUNTING TECHNICIANS OF SRI LANKA

LEVEL I EXAMINATION - JANUARY 2023

(103) ECONOMICS

04-03-2023

Afternoon

[02.00 – 5.00]

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

- (1) **Time:** 03 hours. No. of Pages : 07
- (2) **All questions should be answered.** No. of Questions : 06
- (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) **Action Verb Check List** with definitions is attached. Each question will begin 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.
- (7) **100 Marks.**

**SECTION A**

**Objective Test Questions (OTQs)**

(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 the reward for land?

- (1) Profit.                      (2) Rent.                      (3) Interest.                      (4) Wages.

**1.2** Consider the following statements with reference to the Normative Economic statement:

- (a) It express ideas in relation to “what ought to happen”.
- (b) It is based on underlying value judgments of individuals.
- (c) It can be examined through the facts and figures available in the real world.

Of the above, the correct statement/s is / are:

- (1) **(a)** and **(b)** only.                      (2) **(a)** and **(c)** only.
- (3) **(b)** and **(c)** only.                      (4) All of the above.

**1.3** According to the Annual Report of the Central Bank of Sri Lanka for the year 2021, the Economic Growth Rate in Sri Lanka for the year 2021 was:

- (1) 2.3%.                      (2) 3.1%.                      (3) 3.7%.                      (4) 4.5%.

**1.4** Which of the following is **not** a scenario of a zero-opportunity cost?

- (1) When there is no scarcity of resources.
- (2) When there is an outcome of a production process.
- (3) When resources have no alternative uses.
- (4) When unemployed resources are used in economic activities.

**1.5** Consider the following statements:

- (a)** Quantity demanded equals quantity supplied.
- (b)** Expectations of the buyers and sellers that operates in a competitive market match.
- (c)** There is an excess demand or supply.
- (d)** There is no tendency for price to change.

Of the above, the statement/s which **incorrectly** explain/s the market equilibrium is / are:

- (1) **(c)** only. (2) **(d)** only.  
(3) **(c)** and **(d)** only. (4) **(b)**, **(c)** and **(d)** only.

**1.6** When the price of commodity Y increases from Rs.75/- to Rs.125/-, the quantity demanded of commodity X decreases from 4,000 to 2,500. If X and Y are complementary goods, the cross price elasticity of demand between commodity X and Y would be:

- (1) 0.5625.      (2) -0.5625.      (3) -1.778.      (4) 1.778.

**1.7** Of the following, which initiative will safeguard the local paddy farmers?

- (1) Maximum price control on rice.
- (2) Minimum price control on paddy.
- (3) Imposition of a tax on paddy production.
- (4) Provision of a subsidy on imported rice varieties.

**1.8** Which of the following is **not** a factor which results in increasing returns to scale?

- (1) Issues in management.
- (2) Indivisibility of factors of production.
- (3) Use of technologically advanced machines.
- (4) Presence of expenses that must be incurred only once.

**1.9** Which one of the following is **not** correct with respect to a firm operates in a perfectly competitive market?

- (1) Any firm can make economic profit and continue to operate in the market.
- (2) It can make normal profits in the long run.
- (3) There are barriers to exist from the market.
- (4) It produces homogeneous products.

**1.10** The period from the trough to the peak in a business cycle is known as:

- (1) Depression.
- (2) Expansion.
- (3) Economic gap.
- (4) Output gap.

*Select the correct word/words from those given within brackets to fill in the blanks of question No. 1.11 and 1.12. Write the selected word/words in your answer booklet with the number assigned to the question.*

**1.11** If the cross price elasticity of demand between goods **X** and **Y** is ..... (*positive / negative*) the goods are considered as substitute goods.

**1.12** A ..... (*monopolistically competitive / monopoly*) firm makes normal profits only in the long run.

*State whether each of the following statements from 1.13 and 1.14 is **True** or **False**. Write the answer (True/False) in your answer booklet with the number assigned to the question.*

**1.13** Aggregate of currency held by the public and demand deposits held by the public at commercial banks is called as Broad Money Supply ( $M_2$ ).

**1.14** Economic system is a set of principles established to solve the fundamental problems faced by the society.

*Write the answers for question No. 1.15 to 1.20 in your answer booklet with the number assigned to the question.*

**1.15** Explain briefly the difference between “Micro Economics” and “Macro Economics”.

**1.16** Explain briefly the income effect which results in the inverse (negative) relationship between price and the quantity demanded.

1.17 Explain briefly the difference between “Choice” and “Opportunity Cost”.

1.18 State two(02) main functions of the Central Bank of Sri Lanka.

1.19 Explain briefly what is an indifference curve.

1.20 Explain briefly, the term “Sustainable Development”.

(02 marks each, Total 40 marks)

End of Section A

## **SECTION B**

(Total 40 marks)

### **Question 02**

(a) Consider the following Demand (Qd) function and Supply (Qs) function given in relation to a commodity:

$$Q_d = 17 - 0.05p$$

$$Q_s = -1 + 0.1p$$

**You are required to:**

(i) **Calculate** the equilibrium price and quantity. (04 marks)

(ii) **Calculate** the new equilibrium price and quantity after the unit tax if the government imposes a unit tax of Rs.30/- on suppliers of the above commodity. (03 marks)

(b) **Explain** what is meant by the consumer equilibrium. (03 marks)  
(Total 10 marks)

### **Question 03**

(a) **Explain** the difference between Economic Goods and Non-Economic Goods with an example for each. (04 marks)

(b) **Calculate** Average Variable Cost (AVC) using the below information:

Quantity	Total Variable Cost (TVC)	Average Variable Cost (AVC)
1	150	
2	250	
3	330	

(03 marks)

(c) **Explain** the difference between Marginal Cost (MC) and Marginal Revenue (MR). (03 marks)  
(Total 10 marks)

### Question 04

- (a) **State** two(02) reasons for the use of electronic money. (02 marks)
- (b) “Standard & Poor’s (S&P) lowered long-term sovereign credit rating of Sri Lanka from 'CCC+' to 'CCC' in the early months of 2022”.

**You are required to:**

- State** two(02) reasons that lead to a lower credit rating. (02 marks)
- (c) **Explain** three(03) consequences of hyperinflationary situation in Sri Lanka on consumers. (06 marks)
- (Total 10 marks)

### Question 05

- (a) **State** two(02) reasons for demanding dollars. (02 marks)
- (b) **Country A** and **Country B** produce both products **X** and **Y**. The following table shows the units of **X** and **Y** which can be produced by one unit of labour of both countries:

<b>Country \ Product</b>	<b>X (Units)</b>	<b>Y (Units)</b>
<b>A</b>	8	4
<b>B</b>	3	6

- (i) **Explain** which country has the absolute advantage in the production of each product. (02 marks)
- (ii) **Explain** which country has the comparative advantage in the production of each product *(support with the calculations)*. (04 marks)
- (c) **State** two(02) type of transactions recorded in the balance of payment. (02 marks)
- (Total 10 marks)

End of Section B

## **SECTION C**

(Total 20 marks)

### **Question 06**

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

	<b>Rs. million</b>
Private Consumption Expenditure	2,500
Government's Consumption Expenditure	5,000
Gross Domestic Fixed Capital Formation	4,500
Changes in stock	2,456
Exports	2,800
Imports	5,789
Foreign net primary income	-50

**You are required to:**

- (a) **Calculate** the following:

- (i) Gross Domestic Expenditure (GDE) at Market Price. (05 marks)
- (ii) Gross Domestic Product (GDP) at Market Price. (03 marks)
- (iii) Gross National Income (GNI) at Market Price. (02 marks)

- (b) **Explain** what is meant by basic price in National Income Accounting. (02 marks)

- (B) Policies and strategies employed in managing an economy of a country is considered as macro-economic policies.

**You are required to:**

**Explain** two(02) macro-economic policies. (04 marks)

- (C) (a) **Explain** what is meant by recurrent expenditure of the government. (02 marks)

- (b) **State** two(02) major types of recurrent expenditure. (02 marks)

(Total 20 marks)

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*End of Section C*

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## **ACTION VERBS CHECK LIST**

Level of Competency	Description	Action Verbs	Verb Definitions
<b>Knowledge (1)</b>	Recall Facts and Basic Concepts.	<b>Draw</b>	Produce a picture or diagram.
		<b>Relate</b>	Establish logical or causal connections.
		<b>State</b>	Express details definitely or clearly.
		<b>Identify</b>	Recognize, establish or select after consideration.
		<b>List</b>	Write the connected items.

Level of Competency	Description	Action Verbs	Verb Definitions
<b>Comprehension (2)</b>	Explain & Elucidates Ideas and Information.	<b>Recognize</b>	Show validity or otherwise, using knowledge or contextual experience.
		<b>Interpret</b>	Translate into understandable or familiar terms.
		<b>Describe</b>	Write and communicate the key features.
		<b>Explain</b>	Make a clear description in detail using relevant facts.
		<b>Define</b>	Give the exact nature, scope or meaning.

Level of Competency	Description	Action Verbs	Verb Definitions
<b>Application (3)</b>	Use and Adapt Knowledge in New Situations.	<b>Reconcile</b>	Make consistent / compatible with another.
		<b>Graph</b>	Represent by graphs.
		<b>Assess</b>	Determine the value, nature, ability or quality.
		<b>Solve</b>	Find solutions through calculations and/or explanation.
		<b>Prepare</b>	Make or get ready for a particular purpose.
		<b>Demonstrate</b>	Prove or exhibit with examples.
		<b>Calculate</b>	Ascertain or reckon with mathematical computation.
		<b>Apply</b>	Put to practical use.

Level of Competency	Description	Action Verbs	Verb Definitions
<b>Analysis (4)</b>	Draw Connections Among Ideas and Solve Problems.	<b>Communicate</b>	Share or exchange information.
		<b>Outline</b>	Make a summary of significant features.
		<b>Contrast</b>	Examine to show differences.
		<b>Compare</b>	Examine to discover similarities.
		<b>Discuss</b>	Examine in detail by arguments.
		<b>Differentiate</b>	Constitute a difference that distinguishes something.
		<b>Analyze</b>	Examine in details to find the solution or outcome.