

ASSOCIATION OF ACCOUNTING TECHNICIANS OF SRI LANKA
LEVEL I EXAMINATION - JULY 2023

(103) ECONOMICS

26-08-2023
Afternoon
[02.00 – 5.00]

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

- (1) **Time:** 03 hours. No. of Pages : 06
- (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) **Graph Paper will be provided.**
- (7) **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.**
- (8) **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 entrepreneurship?

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

1.2 Which one of the following statements is correct regarding the indifference curve?

- (1) Two indifference curves intersects with each other.
- (2) It slopes upward from right to left.
- (3) It is a different combination of two goods that provides a person the equal satisfaction.
- (4) It is used to identify the market equilibrium of a commodity.

1.3 If the coefficient of the cross elasticity of demand between commodities **A** and **B** is positive, the goods are:

- (1) Substitute Goods. (2) Normal Goods.
 - (3) Complementary Goods. (4) Inferior Goods.
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1.4 When the price of commodity **X** increases from Rs.100/- to Rs.120/-, the quantity supplied for that commodity increases from 1,000 to 1,100. The nature of the price elasticity of supply would be:

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

1.5 According to the Annual Report of the Central Bank of Sri Lanka for the year 2022, Economic Growth Rate in Sri Lanka for the year 2022 was:

- (1) 2.3%.
- (2) 1.5%.
- (3) - 4.6%.
- (4) - 7.8%.

1.6 Which one of the following is an instance of a negative impact of economic growth?

- (1) Increase in rate of employment.
- (2) Enhancement of investment.
- (3) Increase in current level of consumption.
- (4) Increase in the standard of living.

1.7 Movement of the supply curve to the right as a result of the change in any factor that influence the supply of a commodity except the price of the own commodity is known as:

- (1) Contraction of supply.
- (2) Expansion of supply.
- (3) Decrease in supply.
- (4) Increase in supply.

1.8 Which one of the following is correct regarding a firm in a perfectly competitive market?

- (1) It makes normal profit in the long run.
- (2) It can determine the price in the market.
- (3) There is no close substitutes.
- (4) The factors of production of the firm cannot easily moves to another firm in the industry.

1.9 Which one of the following is **not** a function of money?

- (1) Store of Value.
- (2) A measure of Value.
- (3) Relative Scarcity.
- (4) Medium of Exchange.

SECTION B

(Total 40 marks)

Question 02

- (a) **Explain** how the basic economic problems are solved by the “Market Economic System” and the “Planned Economic System”. (06 marks)
- (b) **State** two(02) characteristics of land as an economic resource. (02 marks)
- (c) **Explain** the reason as to why Economics is considered as a social science. (02 marks)
- (Total 10 marks)

Question 03

- (a) Consider the following demand (Q_d) equation and supply (Q_s) equation relating to a commodity:

$$Q_d = 3,300 - 8p$$

$$Q_s = -1,500 + 4p$$

You are required to:

- (i) **Calculate** the equilibrium price and quantity. (03 marks)
- (ii) **Calculate** the producer’s surplus. (02 marks)
- (b) **Explain** the consequences of provision of a unit subsidy by the government to producers on an agricultural product with the help of a graph. (05 marks)
- (Total 10 marks)

Question 04

- (a) **Identify** two(02) reasons for the present inflationary situation in Sri Lanka. (02 marks)
- (b) **Explain** two(02) remedies to reduce the present inflationary situation in Sri Lanka. (04 marks)
- (c) **Explain** two(02) implications of monetary policy on Sri Lankan businesses. (04 marks)
- (Total 10 marks)

Question 05

- (a) **State** two(02) items that are included in the financial account of the balance of payment statement. (02 marks)
- (b) **Identify** two(02) arguments each for and against protectionism. (04 marks)
- (c) **Explain** two(02) economic effects of devaluation of the Sri Lankan Rupee against US Dollar. (04 marks)
- (Total 10 marks)

End of Section B

SECTION C

(Total 20 marks)

Question 06

- (A) **Explain** the different phases in the business cycle. (04 marks)
- (B) You are given the following hypothetical data relating to national accounts of an economy for a period of one year:

	Rs. million
Compensation of Employees	4,200
Gross Operating Surplus	3,600
Mixed Income	1,800
Other Taxes less Subsidies on Production	600
Net Foreign Primary Income	300
Net Taxes on Production and Imports	700

You are required to:

Calculate the following using Income Approach:

- (a) Gross Value Added (GVA) at basic price. (05 marks)
- (b) Gross Domestic Product (GDP) at market price. (02 marks)
- (c) Gross National Income (GNI) at market price. (02 marks)
- (C) **Identify** three(03) main sectors of the macro economy that contributes to the economic process. (03 marks)
- (D) **Explain** the difference between “Contractionary Fiscal Policy” and “Expansionary Fiscal Policy”. (04 marks)

(Total 20 marks)

End of Section C

ACTION VERBS CHECK LIST

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

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

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

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