



ASSOCIATION OF ACCOUNTING TECHNICIANS OF SRI LANKA

LEVEL I EXAMINATION - JULY 2024

(103) ECONOMICS

17-08-2024  
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 capital?

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

**1.2** If the coefficient of the cross elasticity of demand between goods X and Y is negative, the goods are:

- (1) Public Goods.                      (2) Complementary Goods.  
(3) Normal Goods.                      (4) Substitute Goods.

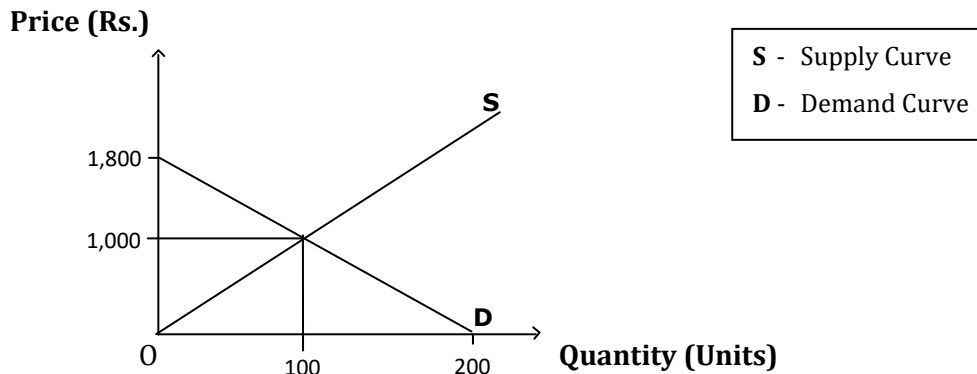
**1.3** The value of next best alternative foregone in the choice of a particular decision is known as:

- (1) Opportunity Cost.                      (2) Scarcity.  
(3) Average Cost.                      (4) Choice.

1.4 Which of the following is **not** correct with reference to the long-run production process?

- (1) The firm is able to change all the factors of production.
- (2) There are no fixed factors of production.
- (3) The factors of productions are divided as variable factors and fixed factors.
- (4) The firm has more flexibility to expand its production capacity.

1.5 You have been given the following demand and supply curves for a commodity:



The producer surplus is:

- (1) Rs.25,000/-
- (2) Rs.40,000/-
- (3) Rs.50,000/-
- (4) Rs.80,000/-

1.6 According to the Annual Economic Review of the Central Bank of Sri Lanka for the year 2023, the Economic Growth rate in Sri Lanka for the year 2023 was:

- (1) -2.3%
- (2) -8.7%
- (3) 1.4%
- (4) -4.8%

1.7 When the price of product A decreases from Rs.40/- to Rs.20/- the quantity demanded of a product increases from 800 units to 1,200 units. The price elasticity of demand of this product would be:

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

1.8 Which one of the following is a factor to shift the Demand Curve to the left?

- (1) Decrease in the price of substitute goods.
- (2) Decrease in the price of complementary goods.
- (3) Increase in the consumers' income.
- (4) Increase in the number of consumers.

**1.9** Which one of the following is **not** correct with reference to a monopolistic market?

- (1) Demand curve is a downward sloping from left to right.
- (2) It has a power to determine the price.
- (3) It makes normal profit only in the short-run.
- (4) Only a single firm operates in the market.

**1.10** A minimum price is imposed by the government in the free market to protect the:

- (1) Competitors. (2) Exporters. (3) Consumers. (4) Producers.

*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** Inflation and price level are covered in ..... (*micro / macro*) economics.

**1.12** When the total utility is maximized, the marginal utility will be ..... (*negative / zero*).

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

**1.13** When the output is increased by one more unit, addition to the total revenue is known as marginal revenue.

**1.14** An assumption of the law of diminishing marginal returns is that the variable factor inputs are not homogenous.

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

**1.15** State two(02) ways of interventions by the government to the market.

**1.16** State two(02) differences between “Needs” and “Wants”.

**1.17** Explain briefly what is meant by “Credit Rating”.

**1.18** List two(02) characteristics of an oligopoly market.

**1.19** State two(02) examples for financial intermediaries in Sri Lanka.

**1.20** State two(02) social profiles of “Sustainable Development”.

(02 marks each, Total 40 marks)

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*End of Section A*

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## SECTION B

(Total 40 marks)

### Question 02

- (a) **State** three(03) characteristics of economic goods. (03 marks)
- (b) **Explain** how basic economic problems are solved by a mixed economic system. (05 marks)
- (c) **Explain** a reason why there is an inverse (negative) relationship between the price and the quantity demanded. (02 marks)
- (Total 10 marks)

### Question 03

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

$$Q_d = 1,200 - 20p$$

$$Q_s = -200 + 20p$$

**You are required to:**

- Calculate** the market equilibrium price and quantity of the commodity. (03 marks)
- (b) **Identify** three(03) factors that determine the price elasticity of demand. (03 marks)
- (c) **Explain** how a perfectly competitive firm maximizes profit in the short-run using a graph. (04 marks)
- (Total 10 marks)

### Question 04

- (a) **State** two(02) motives for demand for money. (02 marks)
- (b) **Explain** the relationship between profitability and liquidity in relation to commercial banks. (04 marks)
- (c) **Explain** two(02) qualitative monetary policy instruments used by the Central Bank of Sri Lanka. (04 marks)
- (Total 10 marks)

### Question 05

- (a) **State** two(02) assumptions used in the comparative advantage theory. (02 marks)
- (b) **Country A** and **Country B** produce both products **P** and **Q**. The following table shows the units of **P** and **Q** which can be produced by one unit of labour of both countries:

Product Country	P (in units)	Q (in units)
<b>A</b>	4	12
<b>B</b>	21	7

**You are required to:**

- (i) **Identify** which country has the absolute advantage in the production of each product. (02 marks)
- (ii) **Identify** which country has the comparative advantage in the production of each product (*support your answer with the calculations*). (04 marks)
- (c) **State** two(02) steps that can be taken to reduce the adverse impact on depreciation of Sri Lankan rupee against US dollar. (02 marks)
- (Total 10 marks)

End of Section B

**SECTION C**

(Total 20 marks)

**Question 06**

- (A) **Explain** two(02) phases in the Trade (business) Cycle. (03 marks)
- (B) You are given the following data relating to national accounts of an economy for a period of one year:

	<b>Rs. million</b>
Private Consumption Expenditure	1,600
Government's Consumption Expenditure	2,500
Gross Domestic Fixed Capital Formation	4,500
Changes in Stock	2,500
Changes in Values	2,550
Exports of Goods and Services	4,800
Imports of Goods and Services	2,750
Foreign Net Primary Income	1,004

**You are required to:**

**Calculate** the following:

- (a) Gross Domestic Expenditure (GDE) at market price. (06 marks)
- (b) Gross Domestic Product (GDP) at market price. (03 marks)
- (c) Gross National Income (GNI) at market price. (02 marks)
- (C) **Explain** the difference between Gross Domestic Income (GDI) and Gross National Income (GNI). (03 marks)
- (D) **Explain** two(02) impacts of fiscal policy of the country on businesses. (03 marks)
- (Total 20 marks)

End of Section C

## **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.