

**EXAMINER'S REPORT****LEVEL I EXAMINATION - JANUARY 2026****(103) ECONOMICS**

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It was observed that most of the candidates have answered the Economics paper at quantitatively acceptable level. However, it was evident that there were some questions which had been answered not up to the expected standard by the considerable number of candidates.

The detailed observations of the examiners during the evaluation of answer scripts are presented below:

**Section A****Question No. 01**

This section was structured to cover a broad range of topics within the Economics syllabus. As a compulsory question, it included objective test questions based on fundamental economic theories and concepts.

Questions **1.1** to **1.10** consisted of ten multiple-choice questions. Questions **1.11** to **1.12** required selection of the correct answers from the answers to given questions, while questions **1.13** to **1.14** were required to state whether each given statement was "True" or "False". For questions **1.15** to **1.20**, candidates were expected to write their answers alongside the respective question numbers in the answer booklet.

Most of the candidates successfully secured marks in this section, while some candidates had shown weaknesses giving their answers. Thus common weaknesses observed can be underlined as follows:

- 1.1** Most candidates correctly identified the third option "*It studies about behaviour of consumers*" as the correct statement related to Microeconomics.
- 1.2** Many candidates successfully answered "*Profit*" as the reward for the factor of production of entrepreneurship.
- 1.3** Many candidates successfully answered the question by correctly calculating the producer surplus as Rs.1,800/-.
- 1.4** Many candidates correctly identified a market structure with a single seller as a "Monopoly."
- 1.5** Many candidates correctly identified the "*The amount of available resources is fixed during the period under consideration*" as an assumption of the Production Possibility curve.
- 1.6** Many candidates correctly identified that "*Existence of Consumer Sovereignty*" is not a feature of a command economy.

- 1.7** Many candidates did not successfully answer this question regarding Indifference Curves. It is clear that candidates' knowledge of Indifference Curves is insufficient.
- 1.8** Many candidates correctly identified that the prices of complementary goods, consumers' income, and prices of substitute goods are determinants of demand.
- 1.9** Most of the candidates successfully identified that an increase in consumer income causes the demand curve to shift to the right.
- 1.10** Many candidates correctly identified that, according to the Annual Economic Review of the Central Bank of Sri Lanka for 2024, Sri Lanka's per capita income was USD 4,516.
- 1.11** A large number of candidates correctly answered that opportunity cost is the value of the next best alternative foregone in the choice of a particular decision and were awarded marks.
- 1.12** Many identified that the Marginal Product (MP) curve intersects the Average Product (AP) curve at its maximum point of the Average Product Curve.
- 1.13** Many candidates correctly identified that *"at the optimum level of production, Marginal Revenue equals Marginal Cost"* is as a true statement.
- 1.14** Most candidates correctly identified that *"In monopolistic competition, firms earn normal profits in the short run only"* is as a false statement.
- 1.15** Most candidates successfully stated two characteristics of economic goods.
- 1.16** Most candidates failed to briefly and successfully explain what is meant by demand-pull inflation. It was clear that the candidates' knowledge of this concept is weak.
- 1.17** Only a handful of candidates provided answers to the question designed to test their knowledge of the motives for the demand for money with a clear understanding. Some candidates confused the motives for demanding money with the functions and characteristics of money.
- 1.18** The answers provided by candidates confirmed that their understanding of the difference between total utility and marginal utility was at a low level. Some candidates instead explained the difference between total production and marginal production.
- 1.19** It was clear from the answers that students' knowledge of the dimensions of human development is insufficient.
- 1.20** While some candidates successfully answered the question on recent economic trends in the Sri Lankan economy, others wrote about macroeconomic goals instead.

## Section B

This section consists with four (04) compulsory questions carrying 10 marks for each question.

### Question No. 02

- (a) (i) Many candidates successfully answered the question asked about the four factors of production.
- (ii) Many candidates successfully answered the question asked to state instances where opportunity cost is zero.
- (b) Using the given demand and supply equations ( $Q_d = 200 - 10p$  and  $Q_s = 40 + 30p$ ), the majority of candidates correctly calculated the market equilibrium price and quantity and obtained full marks.
- (c) Candidates did not successfully answer this question, which asked about determinants of price elasticity of supply. Some candidates mentioned determinants of supply without understanding the question, while others mentioned determinants of elasticity of demand.

### Question No. 03

- (a) Only a handful of candidates correctly explained the consequences of imposing a unit tax on a commodity by the government using a graph. Many candidates failed to shift the supply curve to the left while drawing the supply curve correctly. Some candidates did not present the demand curve correctly. Due to the failure to draw the supply curve accurately, candidates were unable to obtain the full marks allocated.
- (b) It was observed that most of the candidates' understanding of the long-run production process is insufficient. Although asked to state two characteristics of the long run in a production process, many candidates stated only one characteristic.
- (c) Only a few candidates correctly stated the characteristics of an oligopoly market. Many candidates confused this with the characteristics of perfect competition and monopoly. Overall, a significant number of candidates failed to answer this question successfully.

#### Question No. 04

- (a) While many candidates correctly stated the functions of a commercial bank, some candidates wrote the functions of the Central Bank instead.
- (b) It was observed that many candidates successfully answered this question. The majority of the candidates explained the “*price level*”, but they failed to explain the relationship between the price level and interest.
- (c) Due to poor understanding of qualitative monetary policy instruments, many candidates explained quantitative instruments such as central bank interest rates, statutory reserve ratio, and open market operations instead.

#### Question No. 05

- (a) Many candidates correctly calculated the opportunity cost and identified that the country with the lower opportunity cost has the comparative advantage and obtained full marks. However, some candidates calculated the opportunity cost but switched the names of the countries that have comparative advantages or made errors in the calculations.
- (b) It was observed that the candidates’ knowledge of flexible and fixed exchange rates was at a very low level. Many candidates only gave the literal meaning of the words “*flexible*” (changing) and “*fixed*” (not changing) rather than the economic definitions.
- (c) Only a considerable number of candidates explained steps that can be used to control the depreciation of the Sri Lankan rupee against the US dollar. Some candidates only mentioned two steps, such as “*encouraging exports*” and “*discouraging imports*”, without explaining them.

### Section C

#### Question No. 06

- (A) Many candidates were able to correctly state the macroeconomic objectives and obtained full marks.
- (B) Many candidates obtained full marks by mentioning the three approaches to national income accounting: the income approach, expenditure approach, and output approach.
- (C) Many candidates correctly calculated (a) Gross Domestic Expenditure (GDE) at market price, (b) Gross Domestic Product (GDP) at market price, and (c) Net National Product (NNP) at market price. However, some candidates failed to consider the (+) or (–) value when adjusting for net foreign primary income to GDP, and some candidates subtracted it.

- (D) Only a handful of candidates answered successfully regarding “basic price.” It was clear that candidates lack knowledge of basic prices.
- (E) Only an average number of candidates clearly stated the difference between direct and indirect taxes. Some candidates gave the literal meanings of the words (e.g., “taxes collected directly” vs “indirectly”) rather than economic definitions.

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**Common matters to be considered to improve competency level of candidates:**

- (1) Study the syllabus completely and thoroughly paying attention to new subject matters.
- (2) Read the question with due care and do not write unnecessary explanations/details when direct answers are expected.
- (3) “**Action Verb Check List**” with definitions is attached to the question paper itself and each question will begin with an action verb excluding Objective Test Questions (OTQs). Candidates should answer the questions based on the definition of the verb given in the Action Verb Check List.
- (4) Refer specially the Self-Study Text, books, manuals, letters, magazines, Central Bank annual reports and anything relate to this subject.
- (5) Develop the skills needed to correctly identify the basic theoretical concepts in answering.
- (6) Handwriting should be legible and the numbers of questions should be correctly and clearly written.
- (7) Follow the instructions given in the question paper.
- (8) Perusal of past question papers and suggested answers would help sharpening knowledge and experience.
- (9) By getting a correct understanding of economics concepts, there should be the ability to compare the difference between each concept.
- (10) Proper management of time is important.
- (11) Re-check the question numbers before handing over the answer scripts.
- (12) Sit for the exam with confidence after prior preparation and utmost expectation of getting through the exam.

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