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Provincial Department of Education - NWP

21 E I

First Term Test - Grade 13 - 2019

Index No : ....

Economics I

Two Hours

Important

- **Answer all the questions.**
- **Select the correct or most suitable answer. (A supplementary paper is provided to mark answers)**

01. The choice of the exciting resource is unavoidable for any economy,
    1. as all the resources available are not efficiently utilized.
    2. due to the inability of achieving a rapid economic growth.
    3. as existing resources are scare and have alternative uses of them.
    4. as existing resource stock exceeds the alternative uses of them.
    5. because, although the production is done optimally, the allocation of resources would be inefficient.

02. Select the accurate statement from the followings.
    1. All the goods which bring a positive satisfaction are the economic goods.
    2. All the goods which can be consumed at free of charge are the non -economic goods.
    3. Goods which are produced by utilizing production resources are the free goods.
    4. Non - economic goods never can be economic goods.
    5. Economic goods are the scare goods that have an opportunity cost.

03. Which of the following components would be irrelevant for capital?
    1. A buffalo used in ploughing.
    2. A fixed deposit.
    3. A gem deposit.
    4. A hired three wheel.
    5. Moraghakanda reservoir.

04. A function which cannot be performed by the price mechanism in free market economy is,
    1. Allocating scarce resource among competitive production fields.
    2. Efficient production techniques is selected related to the relative factor price.
    3. The entrance of a certain industry is encouraged by profits.
    4. Ensuring the supply of sufficient amount of welfare goods.
    5. Giving signal about the change in consumer desire.

05. Certain information of an economy where capital goods and consumer goods are produced at full employment and full production under the given technology is given below.

Production combination	Production of capital goods (units)	Consumer goods sacrificed (units)
A	0	-
B	20	20
C	40	30
D	60	40
E	80	50
F	100	60

What would be the production quantity of consumer goods at "C" product combination ?
1. 200 2. 180 3. 150 4. 60 5. 30

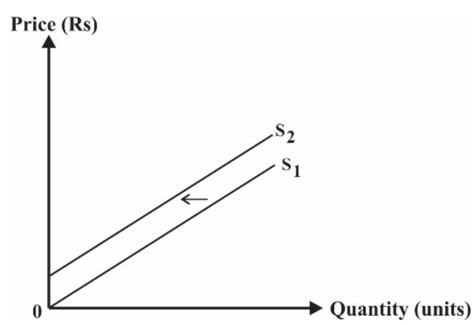
06. When other factors remain constant, the demand for Y good is increased due to price reduction of X good. According to given information, select the most accurate statement.
1. X good is a substitute for Y good.
2. Y good is an inferior good.
3. X good is a normal good.
4. Y good is a normal good.
5. X good is a luxary good.

07. Which of the following would be accurate relate to an inferior good of which the demand curve slopes downward from to right?

Combination	Price elasticity of demand	Income elasticity of demand
1.	Positive	Negative
2.	Positive	Positive
3.	Negative	Negative
4.	Negative	Positive
5.	Negative	Inelastic

08. The price demand elasticity for luxury motor vehicle is -1.5. When the price of a motor vehicle is Rs.25 million, 100 motor vehicles are demanded. What would be the quantity demanded due to price reduction of motor vehicle up to Rs.20 million?
1. 180 2. 150 3. 130 4. 70 5. 30

09. The market supply curve of a certain good shifts from S_1 to S_2 as follows.



A possible reason for this shift is,
1. Price increase of related good.
2. Reduction of expected price of considerable good.
3. Increase is price of considerable good.
4. Decrease is price of considerable good.
5. Decrease in production cost of considerable good.

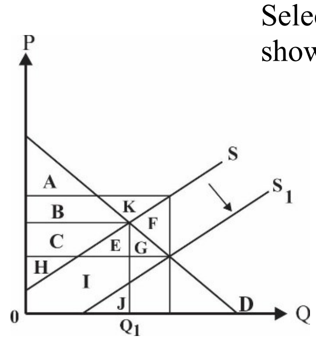
10. The market supply function of A good is $Qs = -30 + 6P.$ If the market price of this good is Rs.15, What would be the producer surplus at that price ?
1. Rs.100 2. Rs.200 3. Rs.250 4. Rs.300 5. Rs.600

11. What would be the price elasticity that the entire economic surplus is consisted with the producer surplus in a free market economy ?
1. Inelastic demand 2. Perfectly inelastic demand 3. Elastic demand
4. Unitary elastic demand 5. Perfectly elastic demand

12. Which of the following effect is possible, of a good that has a relatively elastic demand and increase in supply?
1. Decrease in the market price and decrease in total revenue.
2. Decrease in the market price and increase in total revenue.
3. Increase in the market price and increase in total revenue.
4. Created an excess demand in the market.
5. Created an excess supply in the market.

13. When a tax is imposed on a certain product, that has an infinite price demand elasticity,
1. The supply curve shifts to right.
2. Entire tax burden is taken by the producer.
3. Entire tax burden is taken by the consumer.
4. Market price is raised by the same amount of taxation.
5. The price paid by the buyer is increased by the same amount of taxation .

14. A subsidy situation of a certain competitive market is depicted by the following diagram.



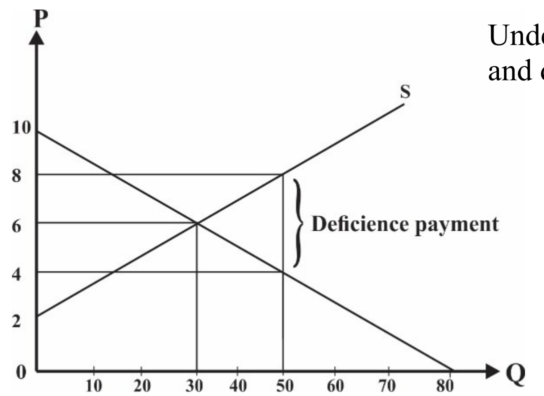
Select the correct answer that consumer surplus and producer surplus are accurately shown due to shift of market supply curve.

	Consumer surplus	Producer surplus
1.	A,B,C,E,G	C,H,B,K
2.	A,B,C,F,E	C,E,H,I
3.	B,C,E,G,F	H,I,B,C
4.	I,K,B,C,E	F,I,E,G,J
5.	F,E,A,B,C	E,G,I,J

15. The unemployment problem can be seen in the labour market when,
1. Maximum price is imposed. 2. Minimum price is imposed.
3. Production subsidies are provided. 4. Taxes are levied on products.
5. rationings are regulated on producers.

16. Demand and supply functions of a market are given as below.
$Qd = 80 - 4P$ $Qs = -30 + 6P$
Select the accurate answer which shows the government tax income and price received by producer respectively due to Rs.5.00 of tax imposed on this good ?
1. Rs.216 and Rs.11 2. Rs.264 and Rs.9 3. Rs.394 and Rs.11
4. Rs.120 and Rs.9 5. Rs.216 and Rs.14

17. The following diagram shows a guaranteed price situation with a minimum price policy of a certain good and a deficiency payment is ensured.



Under this condition what would be the cost of the government and dead weight loss created in the economy ?

	Government cost	Welfare loss
1.	400	80
2.	200	40
3.	100	20
4.	400	40
5.	200	20

18. If producers prefer to supply more goods than the goods which are preferred to be demanded by consumers, which of the following statement would be accurate?
   1. This good is an inferior good.
   2. The demand is highly inelastic.
   3. A maximum price is imposed on the good by the government.
   4. A minimum price is imposed on the good by the government.
   5. The supply of the good is highly elastic.

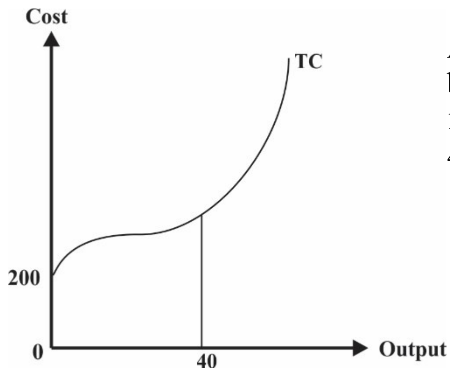
19. The rationing system in price stabilization of agricultural products is being said as economically inefficient policy because,
   1. The market is not at the equilibrium due to rationing.
   2. It creates a surplus production in the economy.
   3. It creates an under production in the economy.
   4. More land area is used in cultivation due to rationing.
   5. Market price is maintained at a lower level due to rationing policy.

20. The opportunity cost of the use of production factor at present, equals to the,
   1. Economic rent.
   2. Normal profit.
   3. Economic profit.
   4. minimum average cost.
   5. Transfer earnings.

21. Which of the following variable would represent both direct as well as indirect costs?
   1. Insurance premium.
   2. Interest an capital.
   3. Purchasing raw materials.
   4. Normal profit.
   5. Labour salary.

22. In the short run production process, the Total cost is Rs.360 at zero output. If the Total cost of producing 4 units is Rs.560, the average variable cost of that output level is,
   1. Rs.90
   2. Rs.140
   3. Rs.50
   4. Rs.200
   5. Rs.40

23. The total cost curve of a firm is given below.



Assume, the total cost of this firm at 40 units is Rs.400. What would be the Total Fixed Cost (TFC) of this firm at 40 units of output ?

1. Rs.400
2. Rs.200
3. Rs.50
4. Rs.800
5. Rs.1600

24. The main reason to earn only normal profits in the long run by a firm in perfectly competitive market is,
    1. Price equals to marginal cost.
    2. Firm functions with a given price.
    3. homogeneous products are produced by the firm.
    4. horizontal lined demand curve.
    5. Free entrance and exit.

25. When the total revenue equals to the total cost of a firm in a perfectly competitive market,
    1. Economic profit is maximized.
    2. Economic profit is zero.
    3. Firm gets losses.
    4. Firm earns abnormal profit.
    5. Normal profit is not received.

26. Select the accurate definition on potential output.
    1. The maximum output level that can be produced utilizing the exciting resources with maximum efficiency is the potential output.
    2. The optimum sustainable output level produced without an inflationary preasure, is the potential output.
    3. Short term fluctuations of output is the potential output.
    4. Increase in output in short term with an inflationary preasure is the potential output.
    5. Output level which can be changed with inflationary and deflationary preasure is the potential output.

27. The economic effect of lowering the value of aggregate expenditure than the value of aggregate production is,
    1. A contraction in macro economy as producers are discouraged.
    2. An expansion in macro economy as producers are encouraged.
    3. An expansion in macro economy due to increase in aggregate demand.
    4. An increase in production of the economy due to increase in injections.
    5. An increase in production of the economy due to a reduction of leakages.

28. A component which is relevant to the Gross value added (GVA) at basic price is,
    1. tax less subsides on the product.
    2. other taxes less subsidies on production.
    3. transport cost and trade margins.
    4. Change in net interest rate.
    5. Change in inventories.

29. Intermediate goods are neglected from national accounting, specially
    1. as these goods are limited only for goods market.
    2. as no contribution of intermediate products on aggregate output level of the economy.
    3. due to inability of acquiring accurate data about all the intermediate goods used in the production.
    4. as a strategy of preventing double counting and multiple counting errors.
    5. as these goods are consumed only by intermediators.

30. Which of the following income is not considered in calculating national accounts ?
   1. property income given on resource ownership.
   2. Subsidy given on public suffered from drought.
   3. Dividends given on share holders.
   4. Insurance coverage given on employees by employers.
   5. Property income of the government.

31. The resource utilization of an economy is depicted by,
   1. wages + Interest + Rent + profit
   2. Consumption + Savings + Tax + Exports
   3. Consumption + Savings + Tax + Imports
   4. Household consumption + Government consumption + Investment + Imports
   5. Household consumption + Government consumption + Investment + Exports

32. What would be the marginal propensity to save when consumption expenditure is increased from Rs. 65 000 to Rs. 73 000 due to increase in income from Rs. 70 000 to Rs. 80 000 ?
   1. 0.8   2. 0.91   3. 1.25   4. 0.2   5. 0.25

33. Certain information related for an economy where government is absent is given below.

Household consumption expenditure	150 + 0.6y
Gross domestic capital formation	80
Exports	120
Imports	150

What would be the equilibrium national income and total autonomous expenditure respectively of this economy?
   1. Rs.1250 and Rs.500   2. Rs.1250 and Rs.200   3. Rs.500 and Rs.200
   4. Rs.2000 and Rs.500   5. Rs.500 and Rs.500

34. Which of the following is caused to increase the aggregate expenditure of an economy ?
   1. Decrease in consumption expenditure.
   2. Decrease in investment expenditure.
   3. Decrease in exports.
   4. Decrease in import expenditure.
   5. Decrease in government purchases.

35. What would be the investment multiplier and the tax multiplier in a situation where increase in savings from Rs.6 000 to Rs.7 000 due to increase in income from Rs.10 000 to Rs.15 000?

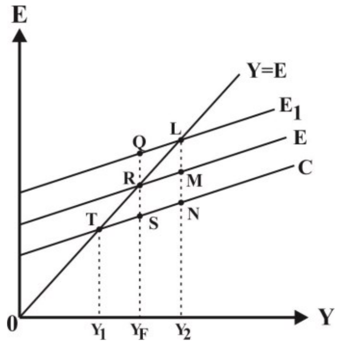
	Investment multiplier	**Tax multiplier**
1.	5	-4
2.	4	-5
3.	2.5	-2.5
4.	1.25	0.25
5.	4	-4

36. Certain information related for an equilibrium income in a hypothetical economy given below.

	Rs. million
Imports	400
Exports	300
Government purchases	1200
Tax	1000
Savings	800

The investment expenditure of this economy is,
   1. Rs.600   2. Rs.2200   3. Rs.800 කි   4. Rs.1500   5. Rs.700

37. The change in equilibrium national income due to change in aggregate demand is depicted below.



The inflationary gap at the full employment income level of this economy is,

1. LM 2. QS 3. QR
4. Y_2L 5. YFR

38. Notes and coins are distinguished from other financial assets,
   1. as currency value is not depreciated even with an inflationary silluation.
   2. as they are issued by the government.
   3. due the legal acceptability.
   4. due to perfect liquidity.
   5. due to portability.

39. "Obtaining loans and loans repay ability are facilitated by money." This function of money is called as,
   1. Medium of exchange. 2. Store of value.
   3. A standard of differed payment. 4. A measure of value.
   5. A unit of accounts.

40. Which of the following would be the best definition on "liquidity asset"
   1. An asset which can be converted into payable medium without an extra cost.
   2. An asset which can be converted into payable medium without time delay.
   3. An asset which can be converted into medium of exchange without any time delay and financial loss.
   4. Currency that can be accepted as medium of exchange.
   5. An asset that can be converted into medium of exchange at lower opportunity cost and financial loss.

41. The accurate equation related to narrow money supply is,
   1. $M_1 = CP + DDP$ 2. $M_1 = CP + TSDP$ 3. $M_1 = DDP + TSDP$
   4. $M_1 = CP + DDP + TSDP$ 5. $M_1 = M_2 + CP$

42. Certain financial instruments used by the money market in Sri Lanka given below. Which of them would not be an instrument used by commercial banks ?
   1. Certificate of deposits. 2. Assets back securities.
   3. Commercial papers. 4. Leasing or higher purchase facilities.
   5. Call credit.

43. Which of the following would be a quantitative monetary policy instrument ?
   1. Quantitative restorations on credit. 2. Moral suasion
   3. Ceiling on interest rate. 4. Statuary reserve ratio.
   5. Imposing margin requirements.

44. Which of the following would not be a primary reserve asset in the balance sheet of the commercial bank?
   1. Cash in hand 2. Treasury bills.
   3. Cash with the central bank. 4. Cash with the other domestic banks.
   5. Money at short.

45. A balance sheet of a commercial bank given below.

Liabilities (Rs. million)		Assets (Rs. million)	
Deposits	20000	Reserve	12000
		Loans	8000
Total Liabilities	20000	Total assets	20000

If the SRR is given as 20%, the required reserve and the excess reserve of the bank would be,

	Required reserve for deposits	Excess reserves
1.	5000	80000
2.	4000	4000
3.	12000	2000
4.	8000	4000
5.	4000	8000

46. What would be the type of good that is insufficiently supplied by the market but scare resources are allocated by the government to fulfill the gap ?
1. Public good
2. Private good
3. Common good
4. Welfare good
5. Demerit good

47. When the staturay reserve ratio is increased by the central bank,

	Reserves of the commercial bank	Money supply	Interest rate
1.	Increases	Increases	Increases
2.	Increases	Reduces	Increases
3.	Reduces	Reduces	Increases
4.	Reduces	Reduces	Increases
5.	Increases	Reduces	Reduces

48. When positive externalities are there in the consumption,
1. Private benefit = Social benefit
2. Private benefit > Social benefit
3. Private cost < Social cost
4. Private benefit < Social benefit
5. Private cost > Social cost

49. Which of the following good would be efficiently supplied by the market. ?
1. Public good
2. Welfare good
3. Demerit good
4. Private good
5. Semi - public good

50. The reason to not supply public goods by the private sector is,
1. The marginal cost of additional consumption is zero.
2. The inability of earning profit by charging a price.
3. The existence of positive externalities in consumption.
4. Although the price is charged, has to supply at a lower price.
5. Insufficient capacity.

First Term Test - Grade 13 - 2019

Index No : ....   Economics II   Three Hours

Important

- **Select at least two questions from each section and answer five questions.**

Section A

01). i. What would be the main classification of goods that are utilized to fulfill human wants? Briefly Explain with examples. (4 Marks)

ii. "Economy which has achieved a rapid economic growth does not want to face the problem of scarcity." Do you agree with this statement? Explain. (4 Marks)

iii. What are the main features of capital? What are the main sources of capital formation? (4 Marks)

iv. In leading the economy by solving the problem of scarcity, what are the salient features of market economic system? (4 Marks)

v. Explain the conditions which should be satisfied in efficient resource utilization. (4 Marks)

02). i. The demand and supply table of a certain good is given below.

Price	Quantity demand (units)	Quantity Supply (units)
20	400	0
80	100	300

(a) Draw demand and supply curves and determine the equilibrium price and quantity. (4 Marks)

(b) What would be the total payment that consumers willing to pay to purchase the equilibrium quantity. (2 Marks)

(c) Calculate the surplus that producer receives by selling the equilibrium quantity. (3 Marks)

ii. Explain the difference between expansion in supply and increase in supply. (4 Marks)

iii. Explain why does the price elasticity of demand is low at lower prices than in higher prices. (4 Marks)

iv. According to a survey conducted, "although the demand for smart mobile phone is increased the market price of them is reduced." Explain the above given situation using a relevant diagram. (3 Marks)

03). i. Certain information related to a good in a market given below.

Price	Quantity supply
2	8
4	16

If government decides to provide Rs.2.00 of unit subsidy, derive the supply equation before and after. (4 Marks)

ii. When there is a relatively inelastic supply, explain the situation of sharing the tax burden between consumer and producer using a relevant diagram. (4 Marks)

iii. The demand and supply equations related to a certain competitive goods market given as below.

$Qd = 60 - 2P \qquad Qs = -20 + 3P$

(a) Calculate the equilibrium price and quantity. (2 Marks)

(b) Calculate the excess supply of this good when Rs.20.00 of minimum price is imposed by the government. (3 Marks)

(c) What would be the commodity shortage in the market due to Rs.12.00 of maximum price imposed on the good. (3 Marks)

iv. What are the non - price rationing techniques used in minimizing the commodity shortage due to maximum price policy. (3 Marks)

04). i. Compare the main features of perfectly competitive market and monopoly market. (4 Marks)

ii. What is meant by price taker and price maker? Explain. (4 Marks)

iii. Explain the relationship between marginal cost and average total cost. (4 Marks)

iv. Using a relevant diagram, explain the profit maximization of a firm in perfect competition related to total revenue and total cost approach. (4 Marks)

v. Explain reasons for the U shaped long run average cost curve with flat bottom. (4 Marks)

05). i. Mention weather the following economic activities are included in national account estimation or not. Explain the reason.

(a) Increase the value of land by 3 lacks within the considerable year that was purchased for 20 lacks by an individual.

(b) Having one lack of commission by a motor vehicle seller, by selling a used motor vehicle.

(c) The profit earned by an individual by selling company shares at a higher price that were purchased at a lower price.

(d) Consuming home cultivated vegetable harvest by a housewife. (4 Marks)

ii. Certain information related to national income of an economy given below. (Rs. in billion)

Gross domestic capital formation	15000
Private consumption expenditure	25000
Net exports	-5000
Gross domestic fixed capital formation	12000
Government purchases	10000
Stock changes	2000
Imports	14000
Foreign primary income receipts	7000
Foreign primary income payments	10000
Value changes	1000
Secondary Income balance	6000

Calculate,

(a) Gross Domestic Product. (b) Gross National Income.

(c) Disposable Gross National Income. (d) National saving (8 marks)

iii. Discuss the difference between autonomous consumption expenditure and induced consumption expenditure. (2 marks)

iv. (a) In a diagram shows the macro economic equilibrium of a simple economy using both Y = E and W = J conditions. (3 marks)

(b) Write down the macro economic equilibrium in an open economy in equation form. (1 mark)

Section B

06). i. Introduce basic price, producer price and consumers' price. (6 marks)

ii. What are the uses of calculating national accounts for an economy. (4 marks)

iii. Explain the difference between Gross value output and Gross value added. (2 marks)

iv. Certain macro economic data given below.

Autonomous consumption expenditure	700
Investment expenditure (I)	1000
Government purchases (G)	800
Exports (X)	300
Imports (M)	450
Marginal propensity to consume	0.75

(a) Build up the savings function of the economy. (2 marks)

(b) Calculate the equilibrium national income. (2 marks)

(c) What would be the change in equilibrium income due to increase in investment by Rs. 200 million of the economy? (2 marks)

(d) Calculate the Average propensity to consume for the new equilibrium income. (2 marks)

07). i. Define "money" and mention three features of good money. (5 marks)

ii. Mention main functions of money. (4 marks)

iii. Introduce " near money" and "money substitutes" and give example for each. (6 marks)

iv. "The relationship between income and the demand for transaction motive is positive." Explain using a relevant diagram. (3 marks)

v. Write down the components in narrow money supply. (2 marks)

08). i. What are the important price indices used in Sri Lanka at present to measure the changes in average price level. (4 marks)

ii. Define the money market and mention 2 sub market it belongs. (4 marks)

iii. Introduce following concepts related to general price level.

(a) Inflation (b) Deflation (c) Disinflation (3 marks)

iv. Assume there is a monopoly commercial bank in a certain economy and an individual deposits Rs.100 000 in the bank that the statuary reserve ratio is 20%.

(a) What would be the required reserve of this bank? (1 marks)

(b) Calculate excess reserve amount in the bank? (1 marks)

(c) Calculate the deposit multiplier. (1 marks)

(d) What would be the maximum loan amount this bank can supply? (1 marks)

(e) Show the balance sheet of the bank after the maximum loan amount is supplied. (3 marks)

v. What are the two main monetary policy instruments. (2 marks)

09). i. What is meant by market failure. Mention 3 main reasons for market failure. (5 marks)

ii. Define the positive externalities in production and consumption and write an example for each. (4 marks)

iii. What is meant by the government failure. Give 3 reasons for government failure. (3 marks)

iv. Show the tax classification according to the structure of tax rate.

v. Give 3 examples for subsidies given on houseolder sector. (3 marks)

10). i. Explain public goods and quasi-public goods using examples. (4 marks)

ii. What is meant by the disparity in income distribution of an economy and mention reasons for unequal income distribution. (4 marks)

iii. What is meant by the public finance policy? What are the main instruments of this policy? (4 marks)

iv. Explain the policy interest rate of the central Bank? (4 marks)

v. What are important ways of spreading the benefit of monetary policy towards the macro economy ? (4 marks)

First Term Test
Economics – 13 - 2019 - Answer Sheet

Paper- I

1)	3	11)	5	21)	4	31)	5	41)	1
2)	5	12)	2	22)	3	32)	4	42)	3
3)	2	13)	2	23)	3	33)	3	43)	4
4)	4	14)	1	24)	5	34)	4	44)	2
5)	3	15)	2	25)	2	35)	1	45)	5
6)	4	16)	4	26)	2	36)	5	46)	4
7)	3	17)	2	27)	1	37)	3	47)	
8)	3	18)	4	28)	2	38)	4	48)	4
9)	1	19)	3	29)	4	39)	3	49)	4
10)	4	20)	5	30)	2	40)	3	50)	2

Paper- II
Section A

01). **i. What would be the main classification of goods that are utilized to fulfill human wants? Briefly Explain with examples. (4 Marks)**

ii. "Economy which has achieved a rapid economic growth does not want to face the problem of scarcity." Do you agree with this statement? Explain. (4 Marks)

iii. What are the main features of capital? What are the main sources of capital formation? (4 Marks)

iv. In leading the economy by solving the problem of scarcity, what are the salient features of market economic system? (4 Marks)

v. Explain the conditions which should be satisfied in efficient resource utilization. (4 Marks)

01). i. Goods that are used to fulfill human wants are 2 types as,

1. Non economic goods (free goods) 2. Economic goods (2 Marks)

- Goods with unlimited supply at zero price and zero opportunity cost are called free goods.
  Ex : Air, water & sunlight gifted from the nature. (1 mark for 2 example)
- There is no resource cost and opportunity cost with non - economic goods.
- Goods with scarce supply called economic goods. There is resource cost and opportunity cost.
  Ex : Housing, Irrigation system, books. (1 mark for 2 example)

ii. Do not agree

- Due to a rapid economic growth, although a large number of goods and services can be consumed and a higher standard of living can be achieved, the problem of scarcity cannot be fully overcome. (1 Mark)
- Because the scarcity arises due to unlimited wants compaired with limited resource availability. (2 Marks)
- so, until wants are unlimited, the problem of scarcity cannot be fully removed even a rapid economic growth is achieved. (1 Mark)

iii. **Main features of capital**

- A human creation. (a man made factor)
- Possibility of depreciation.
- A real concept.
- consists of productivity.
- Benefit of capital is interest.
- Stock factor / concept. (2 mark for 2 factors)

Main sources of capital formation.

Domestic sources - household savings, Government savings, Business savings. (1 Mark)

Foreign sources - Foreign aid, Foreign loans, Gifts and foreign direct, Investments. (1 Mark)

iv. - Private property ownership.
- Operation of price mechanism to solve basic economic questions.
- Incentives based on self - interest.
- Limited role of the government.
- Making a favorable environment for the market efficiency.
- Market competition. (4 marks for 4 factors)

v. 2 main conditions in economic efficiency.

1. Productive efficiency. 2. Allocative efficiency. (1 Mark)

- Achieving the maximum output combination at the lowest possible cost. (one product can be increased only by sacrificing resources form the other product.) (1 Mark)

2 condition in productive efficiency.

- Full employment. - Full production. (1 Mark)

Distribution of limited resources to produce goods and services which are most wanted by the society in the allocative efficiency. Here $MC = MB = P$ is satisfied. (1 Mark)

02). i. The demand and supply table of a certain good is given below.

Price	**Quantity demand (units)**	**Quantity Supply (units)**
20	**400**	**0**
80	**100**	**300**

(a) Draw demand and supply curves and determine the equilibrium price and quantity. (4 Marks)

(b) What would be the total payment that consumers willing to pay to purchase the equilibrium quantity. (2 Marks)

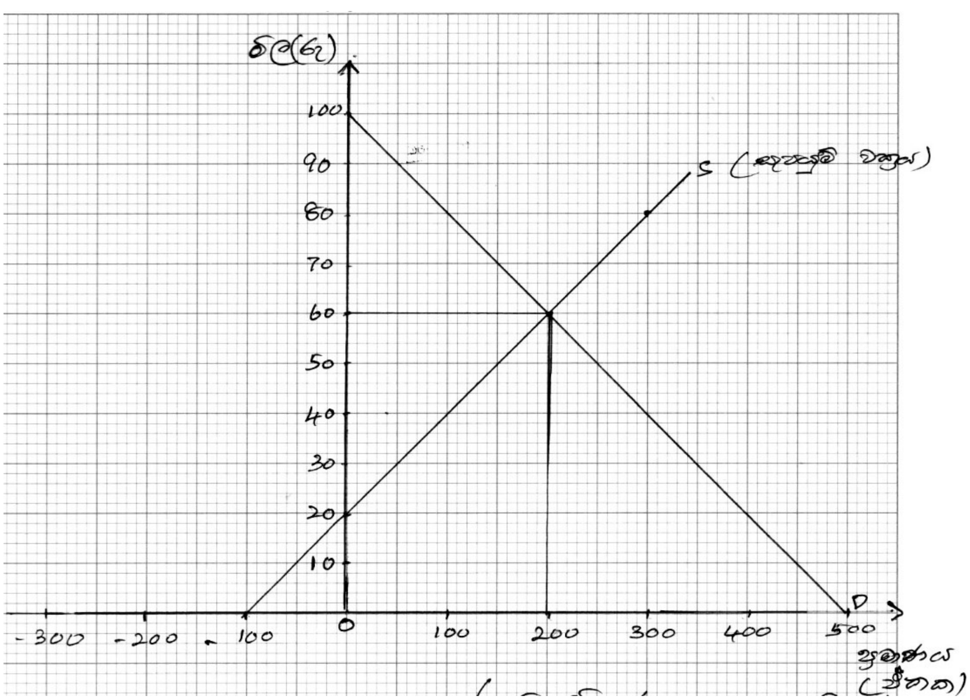
(c) Calculate the surplus that producer receives by selling the equilibrium quantity. (3 Marks)

ii. Explain the difference between expansion in supply and increase in supply. (4 Marks)

iii. Explain why does the price elasticity of demand is low at lower prices than in higher prices. (4 Marks)

iv. According to a survey conducted, "although the demand for smart mobile phone is increased the market price of them is reduced." Explain the above given situation using a relevant diagram. (3 Marks)

02). i. (a)



- Accurate diagram (2 Marks) Equilibrium price = Rs. 60/= (1 Mark)

Equilibrium quantity = 200 (1 Mark)

(b) Consumer expenditure $= Equilibrium\ price \times Equilibrium\ qunatity$

$= 60 \times 200$

$= 1200$

Consumer surplus $= \frac{1}{2} \times 200 \times (100 - 60) = 4000$

Total payment consumers willing to Purchases the equilibrium quantity $= 12000 + 4000$

$= 16\,000/=$ (2 Marks)

(c) Supply equation = Qs = a + bp

= Qs = -100 + 5p (1 Mark)

Minimum supply price = 0 = -100 + 5p

= 100 = 5p

= **20** = **p** (1 Mark)

Producer surplus $= \frac{1}{2} \times Equilibrium\ price \times (Equilibrium\ price - Mini\ Supply\ price)$

$= \frac{1}{2} \times 200 \times (60 - 20)$

$= Rs.\ 4\,000/=$ (2 Marks)

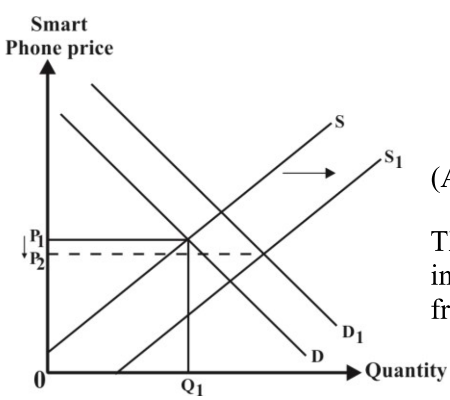
ii. → Expansion in supply is created due to change in price of the concerned good when other factors remain constant.

When other factors are constant if the price of the concerned good is increased the quantity supplied increases and the point on the supply curve moves upward along the supply curve is the expansion in supply. (2 Marks)

→ Increase in supply means, shift in supply curve rightward due to change in other supply determinants when the price of the concerned good remain constant. (2 Marks)

(Graphs can be used for illustration.) (2 Marks)

iii.



(Accurate diagram 2 marks)

The reason for this is, increase in supply at a higher rate rather than increase in demand for smart mobile phones. So price in reduced from P_1 to P_2. (Illustration 1 marks)

iv Price elasticity of demand $= \frac{\Delta Qd}{\Delta P} \times \frac{P}{Qd}$

$\frac{\Delta Qd}{\Delta P}$ is the slope of the demand equation or "b" value. Although the price is changed of a certain good, the slope would be the same.

So, according to the price changes, the values of demand elasticity are changed due to change in $\frac{P}{Qd}$ or the price quantity ratio of the elasticity equation. (1 Mark)

- Accordingly, at higher price of the good, "P" value in equation would be high and elasticity value therefore caused to be increased. (1 Mark)

  So, at a higher price "P" in equation would be high and then elasticity value would be high. Then a higher elasticity value is recorded at a higher price. (1 Mark)

On the other hand, when the price of the good is decreased, $\frac{P}{Qd}$ would be lower and then the elasticity value would be lower. Then the inelasticity increases at a lower level of prices. (1 Mark)

03). i. **Certain information related to a good in a market given below.**

Price	**Quantity supply**
2	**8**
4	**16**

If government decides to provide Rs.2.00 of unit subsidy, derive the supply equation before and after. (4 Marks)

ii. **When there is a relatively inelastic supply, explain the situation of sharing the tax burden between consumer and producer using a relevant diagram. (4 Marks)**

iii. **The demand and supply equations related to a certain competitive goods market given as below.**

$\boldsymbol{Qd = 60 - 2P \quad Qs = -20 + 3P}$

(a) Calculate the equilibrium price and quantity. (2 Marks)

(b) Calculate the excess supply of this good when Rs.20.00 of minimum price is imposed by the government. (3 Marks)

(c) What would be the commodity shortage in the market due to Rs.12.00 of maximum price imposed on the good. (3 Marks)

iv. **What are the non - price rationing techniques used in minimizing the commodity shortage due to maximum price policy. (3 Marks)**

03). i. Supply equation before subsidy.

$Qs = a + bp$

$b = \frac{\Delta Q}{\Delta P} = \frac{8}{2} = \mathbf{4}$

$Qs = a + 4P$

$8 = a + 4x2$

$8 = a + 8$

$8 - 8 = a$

$a = 0$

$\underline{\underline{Qs = 4P}}$ (2 Marks)

Supply equation after subsidy

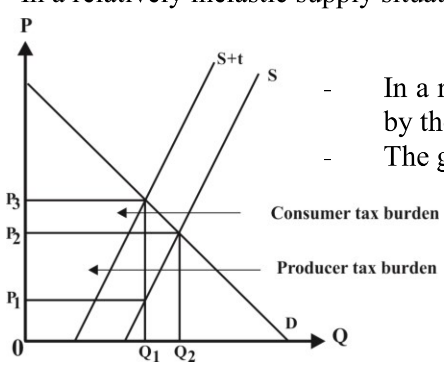
$Qs \ = 4P$

$Qs_{Tr} = 4(P + 2)$

$Qs_{Tr} = 4P + 8$

$\underline{\underline{Qs_{Tr} = 8 + 4P}}$ (2 Marks)

ii. In a relatively inelastic supply situation, the share of tax burden can be shows as follows.



- In a relatively inelastic supply situation more tax burden has to be borue by the producer and a lower tax burden is borue by the consumer.
- The gap between P_1 to P_3 is the tax charged by the government.

(Illustration - 2 marks)

(Graph 2 marks)

iii. (a) $Qd = 60 - 2P$

$Qd = Qs$

$60 - 2P = -20 + 3P$

$60 + 20 = 3P + 2P$

$80 = 5P$

$\frac{80}{5} = P$

$\boldsymbol{P = 16}$ Equilibrium Price (1 mark)

$Qs = -20 + 3P$

$Qd = 60 - 2P$

$Qd = 60 - 2x16$

$Qd = 60 - 32$

$\boldsymbol{Qd = 28}$ Equilibrium Quantity (1 mark)

(2 marks)

(b) Excess demand at Rs. 20/-

$Qd = 60 - 2x20$

$= 60 - 40$

$\boldsymbol{Qd = 20}$ (1 mark)

$Qs = -20 + 3 \, x \, 20$

$= -20 + 60$

$\boldsymbol{Qs = 40}$ (1 mark)

Excess supply = Quantity supply – Quantity demand
$= 40 - 20$
$= \mathbf{20}$ (3 marks)

(c) Quantity supply at Rs. 12/-
$Qs = -20 + 3x12$
$= 20 + 36$
$\underline{\underline{Qs = 16}}$ (1 mark)

Quantity demand at Rs. 12/-
$Qd = 60 - 2P$
$Qd = 60 - 2x12$
$= 60 - 24$
$\underline{\underline{Qd = 36}}$

Commodity shortage = Quantity demand – Quantity supply
= 36 - 16
= **20** (2 marks)

iv. - Queue system. - Rationing system - Distribute goods with other products.
- Black market price - Rationing by bribes. (4 marks for 4 factors)

04). **i. Compare the main features of perfectly competitive market and monopoly market. (4 Marks)**
ii. What is meant by price taker and price maker? Explain. (4 Marks)
iii. Explain the relationship between marginal cost and average total cost. (4 Marks)
iv. Using a relevant diagram, explain the profit maximization of a firm in perfect competition related to total revenue and total cost approach. (4 Marks)
v. Explain reasons for the U shaped long run average cost curve with flat bottom. (4 Marks)

04). i.

Perfect competition	Monopoly
1. Homogeneous products.	1. Specific product
2. Large number of firms.	2. only one firm. (firm and the industry)
3. Free entrance and free exit.	3. very high barriers to enter.
4. Horizontal demand curve of the firm (perfectly elastic demand curve of the firm)	4. Downward sloped demand curve.

(4 marks for any 4 factors)

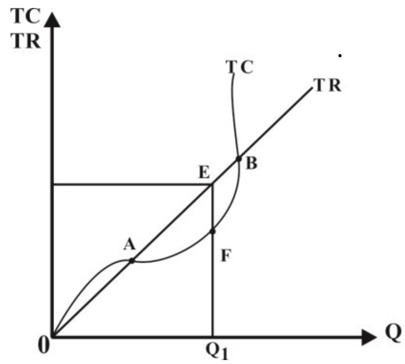
ii. **Price maker**
- Making the decision of price other than just accepting the market determined price is the price maker.
- In monopoly market or in imperfect markets, this feature can be seen.
- Having an authority to fix the price other than just accepting.
- The demand curve of the price maker in downward sloped left to right. (2 marks for 2 factors)

Price taker
- Due to inability of influencing to the price which is determined by market, selling any quantity at the market price is the price taker.
- Has to accept the market determined price.
- A firm cannot influence to change the market price.
- A firm is unable to influence the market price as there are large number of firms.
- The demand curve of this market in perfectly elastic.
- In the perfect competition, this can be seen. (2 marks for 2 factors)

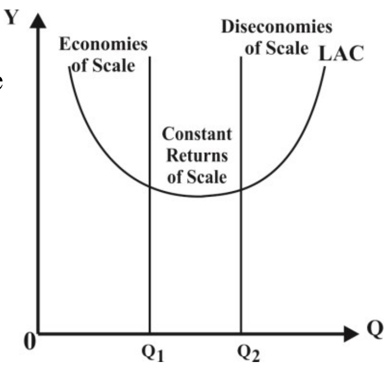
iii. Additional cost per an additional output is the marginal cost.
The sum of average variable cost and average fixed cost is the average total cost. ATC = AVC + AFC
(1 mark)
By dividing the change in total cost by the change in output, marginal cost can be derived. $MC = \frac{\Delta TC}{\Delta Q}$
Average total cost can be derived by dividing the total cost by output units.
$ATC = \frac{TC}{Q}$ (1 mark)

- By cutting the minimum point of average total cost, marginal cost moves. (1 mark)
- When marginal cost is lower than the average total cost, average total cost reduces.
- When marginal cost is grater than the average total cost, average total cost is increasing. (1 mark)

iv. According to the diagram at point A and B, an Total cost equals to Total revenue economic profit would be zero.
The output level that the highest gap between TR and TC between A and B is the output that the profit is maximized



(Explanation 2 marks)



v. - In the long run, firm can expand the production by changing all the factors. (1 mark)
- As a result of expanding the production capacity economics of scale, diseconomies of scale and constant returns to scale.
- The long run average cost curve gets U shape with a flat bottom.
- Due to economics of scale as cost reduces the average cost curve slopes dishonored and due to diseconomies of scale average cost increases. Due to constant returns, the average cost curve remains constant. (Graph is not essential)

05). **i. Mention weather the following economic activities are included in national account estimation or not. Explain the reason.**

(a) Increase the value of land by 3 lacks within the considerable year that was purchased for 20 lacks by an individual.

(b) Having one lack of commission by a motor vehicle seller, by selling a used motor vehicle.

(c) The profit earned by an individual by selling company shares at a higher price that were purchased at a lower price.

(d) Consuming home cultivated vegetable harvest by a housewife. (4 Marks)

ii. Certain information related to national income of an economy given below. (Rs. in billion)

Gross domestic capital formation	15000
Private consumption expenditure	25000
Net exports	-5000
Gross domestic fixed capital formation	12000
Government purchases	10000
Stock changes	2000
Imports	14000
Foreign primary income receipts	7000
Foreign primary income payments	10000
Value changes	1000
Secondary Income balance	6000

Calculate,

(a) Gross Domestic Product. **(b) Gross National Income.**

(c) Disposable Gross National Income. **(d) National saving (8 marks)**

iii. Discuss the difference between autonomous consumption expenditure and induced consumption expenditure. (2 marks)

iv. (a) In a diagram shows the macro economic equilibrium of a simple economy using both Y = E and W = J conditions. **(3 marks)**

(b) Write down the macro economic equilibrium in an open economy in equation form. **(1 mark)**

05).i. (a) Not included - Increase in the value of natural resources will not be an increase in economic production.

(b) Include - Although the transaction related to the sale of used motor vehicle is not included, as the commission in a productive activity, and as it is a value addition, it is included in national accounts. (3 marks)

(c) Not included - As transactions related to financial papers are not productive.

(d) Included - All the goods which are produced by a household included

(correct answer with illustration 4 marks)

ii. (a)

Gross domestic capital formation	=	15000	
Private consumption expenditure	=	25000	
Government consumption expenditure	=	10000	
Net export	=	(5000)	
Gross domestic product	=	45000	(2 marks)

(b)

Foreign primary income receipt	=	7000	
Foreign primary income payment	=	(10000)	
Net foreign primary income	=	(3000)	
Gross national Income	=	(42000)	(2 marks)

(c)

Secondary income balance	=	6000	
Disposable national income	=	48000	(2 marks)

(d)

Disposable national income	=	48000	
(-) Consumer expenditure	=	35000	
Private consumption	=	25000	
Government consumption	=	10000	
National Savings		13000	(2 marks)

Alternative Answer

National Savings = Gross investment – Current balance of BOP

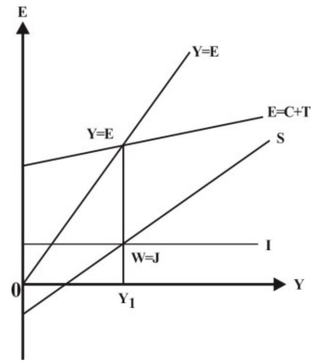
Current balance of BOP

Net export	=	(5000)
Net foreign primary income	=	(3000)
Secondary income balance	=	6000
Current account balance	=	(2000)

National Savings = 15000 - (2000) = 13000 (2 marks)

iii.
- The consumption expenditure that does not depend an income is the autonomous consumption. This is the minimum consumption required for the survival of and individual.
- The intercept of the consumption function is shown by the autonomous consumption expenditure. (2 marks)
- Consumption expenditure is a positive function of the disposable income. When the disposable income is changed the consumption expenditures is also positively changed.
- The consumption expenditure which is changed due to change in disposable income is the induced consumption expenditure.
- When the autonomus consumption expenditure is reduced from the consumption expenditure, the remain is the induced consumption expenditure. (2 marks)

iv. (a)



The economy is at the equilibrium at Y_1
(Accurate curve = 3 marks)

(b) $Y = E \qquad Y = C + I + G + (X - M)$,
$W = J \qquad S + T + M = I + G + X$ (1 mark)

Section B

06). **i. Introduce basic price, producer price and consumers' price. (6 marks)**
ii. What are the uses of calculating national accounts for an economy. (4 marks)
iii. Explain the difference between Gross value output and Gross value added. (2 marks)
iv. Certain macro economic data given below.

Autonomous consumption expenditure	**700**
Investment expenditure (I)	**1000**
Government purchases (G)	**800**
Exports (X)	**300**
Imports (M)	**450**
Marginal propensity to consume	**0.75**

(a) Build up the savings function of the economy. (2 marks)
(b) Calculate the equilibrium national income. (2 marks)
(c) What would be the change in equilibrium income due to increase in investment by Rs. 200 million of the economy? (2 marks)
(d) Calculate the Average propensity to consume for the new equilibrium income. (2 marks)

06). i. **Basic price** means, the price relevant for a good or service at a situation where a good or a service is produced by the producer and is ready for sale. It means, the amount receivable by the producer from the purchaser is called as the basic price.
Subsidies received by the producer in the production are included in this price.
Basic price, product price - Net tax charged on product. (2 marks)

- The **producers price** is the price received by the producer when releasing the product form the production place towards retailers. It is the value after deducting the value of subsidies provided over producers plans direct taxes on products at basic price.
Producers' price = Basic price + Taxes on products - subsidies on products.
- **Purchasers' price** means the actual price paid by the consumer to purchase good or a service.
- This includes, transportation cost, trade margins and net taxes paid by consumers other than producers' price.
Purchasers' price = producers' price + Trade margine charged by intermediaries and transportation cost - subsides provided to retailers by the government an behalf of consumers + Value added tax on products charged from consumers.

ii.
- To assess the performance of an economy.
- To measure the economic growth.
- To estimate per capita GDP.
- To reveal structural characteristics of an economy.

- For international compressions.
- To identify functional relationships between economic actors.
- To obtain information of economic management. (4 marks for any 4 factors)

iii. - The financial value of goods and services produced is identified as the Gross value of output. (GVO)
- This includes intermediatory consumption used in the production. (1 mark)
- Gross value Added (GVA) means the value received after deducting the value of intermediate inputs. (intermediate Consumption (IC)) form the gross value of output (GVO) (1 mark)

iv. (a) $C = 700 + 0.75Y$ $\quad S = -700 + 0.25Y$ (2 marks)

(b) $Y = C + I + G + (X - M)$

$Y = 700 + 0.75Y + 800 + 1000 + (300 - 450)$ (2 marks)

$Y = 2350 + 0.75Y$

$Y - 0.75Y = 2350$

$Y = \frac{2350}{0.25}$ $\quad \underline{\underline{Y = 9400}}$ (1 mark)

(c) $\Delta Y = K\Delta I$

$\Delta Y = \frac{1}{1-b}\ x\ 1200$

$\Delta Y = \frac{1}{1-0.75}\ x\ 200$

$\Delta Y = 4x200$ $\quad \boldsymbol{\Delta Y = 800}$ (1 mark)

Total equilibrium national income = 9400 + 800 = Rs. 10200 (1 mark)

(d) Average propensity to consume = $\frac{C}{Y}$ (2 marks)

$C = 700 + 0.75 \text{ x } 10200$

$C = 700 + 7650$ $\quad C = 8350$ (1 mark)

Average propensity to consume $= \frac{8350}{10200} = 0.81$ (1 mark)

07). **i. Define "money" and mention three features of good money. (5 marks)**
ii. Mention main functions of money. (4 marks)
iii. Introduce " near money" and "money substitutes" and give example for each. (6 marks)
iv. "The relationship between income and the demand for transaction motive is positive." Explain using a relevant diagram. (3 marks)
v. Write down the components in narrow money supply. (2 marks)

07). i. Anything which is accepted commonly as a medium of exchange is called as money. (2 marks)
- Common acceptancy - Divisibility - Uniformity / homegentiy
- Durability - Portability (3marks for any 3 factors)

ii. - Medium of exchange. - Unit of account. - Store of value.
- Standard of differed payments. (4 marks)

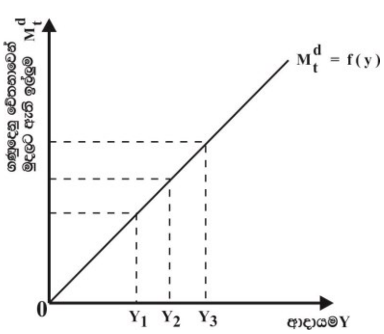
iii. Any easily sellable (liquidity) assets that performs the functions of money as a store of value but not that of a universally acceptable medium of exchange is known as near money.

Ex : - Savings & fixed deposits. - Treasury bills.
- Bills of exchange. - Saving certificates. (2 marks)

Money substitutes

- Financial asset which can be used as a medium of exchange but cannot be used as a store of value are the money substitutes. Ex. Credit cards & debit cards.

iv.



(Accurate diagram 2 marks)

When individual income increases more money is demanded for transaction motive and vice versa. (1 mark)

v. CP - Currency with public.
DDP - Demand deposits of general public.
(If components are written – 1
If components are written and defined – 2)

08). i. What are the important price indices used in Sri Lanka at present to measure the changes in average price level. (4 marks)

ii. Define the money market and mention 2 sub market it belongs. (4 marks)

iii. Introduce following concepts related to general price level.
(a) Inflation (b) Deflation (c) Disinflation (3 marks)

iv. Assume there is a monopoly commercial bank in a certain economy and an individual deposits Rs.100 000 in the bank that the statuary reserve ratio is 20%.
(a) What would be the required reserve of this bank? (1 marks)
(b) Calculate excess reserve amount in the bank? (1 marks)
(c) Calculate the deposit multiplier. (1 marks)
(d) What would be the maximum loan amount this bank can supply? (1 marks)
(e) Show the balance sheet of the bank after the maximum loan amount is supplied. (3 marks)

v. What are the two main monetary policy instruments. (2 marks)

08). i.
- Colombo consumer price index.
- Producer price index.
- National Consumer price index.
- GDP deflator daughter (Implicit price index)

ii. The market which exchange the short term assets with a maturity of less than 1 year which earns an interest such as treasury bills, commercial papers and certificate of deposits is known as money market. This consist of
- Interbank call money market.
- Treasury bill market.
- Commercial papers market.
- Interbank foreign exchange market.

(2 marks for 2 factors)

iii. Continuous increase in general price level. (1 mark)
Continuous decline in general price level (1 mark)
Continuous decrease in inflation rate. (1 mark)

iv. (a) RR = Deposit × SRR

$$= 100\,00\cancel{0} \times \frac{2\cancel{0}}{10\cancel{0}} = \textbf{Rs. 20,000}$$ (1 mark)

(b) Excess Reserve = Money reserve - RR
100000 - 20000 = 80000 (1 mark)

(c) Multiplier $\frac{1}{r} = \frac{1}{20\%} = \frac{1}{0.2} = \mathbf{5}$ (1 mark)

(d) Maximum loan = Multiplier × Excess Reserve
$= 5 \times 80000 \quad = 400000//$ (1 mark)

(e) Total deposit = Multiplier × Money Reserve
$= 5\,x\,100000 \quad = 500000//$ (1 mark)

Liabilities	Rs.	Assets	Rs.
Deposit	500000	Reserve Loan	100000 400000
Total	50000	Total	500000

(Accurate balance sheet 02)

v. Quantitative credit controlling technique.
Quantitative credit controlling technique. (2 marks)

09). **i.** **What is meant by market failure. Mention 3 main reasons for market failure.** **(5 marks)**
ii. **Define the positive externalities in production and consumption and write an example for each.** **(4 marks)**
iii. **What is meant by the government failure. Give 3 reasons for government failure.** **(3 marks)**
iv. **Show the tax classification according to the structure of tax rate.**
v. **Give 3 examples for subsidies given on houseolder sector.** **(3 marks)**

09). i. Inability of market mechanism to distribute scarce resource towards society wellbeing is the market failure. (2 marks)

Reasons

- Inefficiency of resource allocation. - unfair distribution of income.
- Macro economic instability.

(3marks for 3 factors)

ii. Positive externality in production,

Positive effect on third party due to a certain production activity is the positive externality in production.

Ex : - Increase in productivity of bee industry due to gardening.
- Creating water source due to reforestation

positive effect on third party due to a certain consumption activity is the positive externality in consumption.

Ex : - Favorable effects generate over everyone due to use in injections to prevent epidemic diseases. Favorable effects over society and environment with the use of hybrid vehicles.

(Accurate definition - 2 marks)
(Examples - 2 marks)

iii. Government failure means, even if the government intervenes into the economy in order to improve economic efficiency and distribution of income, it may create more and more inefficiencies in the economy or would not produce expected results due to the permanent weakness in the government sector is known as the government failure. (2 marks)

Reasons,

- Rigidities in government operation.
- Political self - interest.
- Short - term vision of government policies.
- Making policies based on imperfect information.
- Unfavorable effects over incentives.
- Increase in administrative cost.
- Bribes and corruptions.
- Bureaucracy. (3marks for any 3 factors)

iv. - Progressive tax. - Regressive tax. - Proportional tax.

v. - Household transfer. - Samurdhi subsidy. - Fertilizer subsidy.
- Pension payment. - School uniform text books, season ticket.
- Subsidies paid on solders in security field

10). **i.** **Explain public goods and quasi-public goods using examples.** **(4 marks)**
ii. **What is meant by the disparity in income distribution of an economy and mention reasons for unequal income distribution.** **(4 marks)**
iii. **What is meant by the public finance policy? What are the main instruments of this policy?** **(4 marks)**
iv. **Explain the policy interest rate of the central Bank?** **(4 marks)**
v. **What are important ways of spreading the benefit of monetary policy towards the macro economy ?** **(4 marks)**

10). i. These are the goods that cannot be provided other than on group basis because the quantity supplied to any individual cannot be independently varied. These are non - rivalry and non-excludability in consumption.

Ex : National defense, clock towers. (2 marks)

Quasi-public goods - goods in which competition cannot be seen until it reaches full capacity & goods that the consumption can be limited are called quasi public goods.
Ex : Express way, museum, public parks. (2 marks)

ii. Disparity in income distribution means, non - distribution of income or resources available in an economy for some people even to satisfy basic needs. (2 marks)

Reasons

- Sacrificed Labour effort. - Education level. - amount of heritage property.
- Face for price. According to these, unequal income distribution is created.

(2 marks for any 2 reasons)

iii. - Public finance policy,
Change in government expenditure, tax rates and loan obtaining & issuing to achieve macro economic objectives is known as, public finance policy. (1 marks)
Instruments - Government tax, Government expenditure, Government loans. (3 marks)

iv. Change in interest rate in controlling the financial policy is the
Standing deposit facility rate.
Standing Lending facility rate.
Bank interest rate. (3 marks)

v.
- Interest rate.
- Exchange rate.
- Expectation
- Loan facilities
- Asset price. (4 marks)