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Provincial Department of Education - NWP

21 E I

Second Term Test - Grade 13 - 2019

Index No : **Economics I** **Two Hours**

Important

- ◆ **Answer all the questions.**
- ◆ **Select the correct or most suitable answer and write the correct number on the given dotted line.**

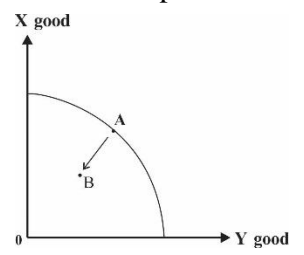
01. Select the economic component related to micro economics.
 1. Consumer behavior in the market
 2. Economic recession
 3. Inflation
 4. Economic depression
 5. Employment

02. The feature belong to the land as a production factor is,
 1. Monotonous
 2. Homogenous
 3. Ability for mobility
 4. Inelastic supply
 5. live factor

03. When a point which lies inside the production possibility frontier moves towards the boundary of a certain economy, it implies,
 1. This economy has achieved the economic growth
 2. The potential output level has been expanded
 3. The production capacity of this economy is increased
 4. The labour force is increased of this economy and thus output level has been expanded
 5. Unutilized resources of this economy are utilized to expand the production.

04. Economic systems which are derived based on the ownership of resources and property right are,
 1. Market economic system and command economic system
 2. Capitalist economic system and socialist economic system
 3. Market economic system, planed economic system and mixed economic system.
 4. Social market economy and socialist market economy
 5. Capitalist economic system and socialist market economic system

05. Production possibilities curve of a certain economy is as follows.

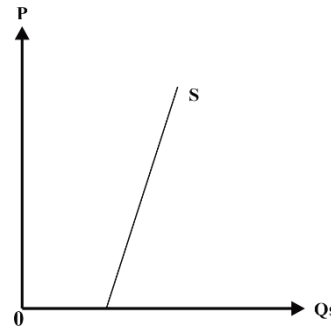


- Which of the followings, would be more appropriate to move the point A towards point B
1. Micro economic concept. Economy faces for a depression.
 2. A reduction of potential output level.
 3. A reduction of the unemployment problem.
 4. A macro economic concept. Economy faces for a recession.
 5. A reduction of the foreign investment level.

06. Assume, the price elasticity of demand for mobile phone is -0.4. If the price of mobile phone is decided to be raised by 50% by the company, what would be the increase or decrease of quantity demanded?
1. Quantity demand is decreased by 25%
 2. Quantity demand is increased by 10%
 3. Quantity demand is decreased by 20%
 4. Quantity demand is increased by 25%
 5. Quantity demand is increased by 20%
07. If a foreign tour is assumed as a luxury good, what would be the possible incidence that can be created in the equilibrium market due to increase in consumer income.
1. Demand reduces, price increases and quantity demanded reduces.
 2. Demand increases, price increases and quantity demanded increases.
 3. Price reduces, demand reduces and quantity demanded reduces.
 4. Demand remains constant, supply increases.
 5. Price increases, demand increases and quantity demand reduces.

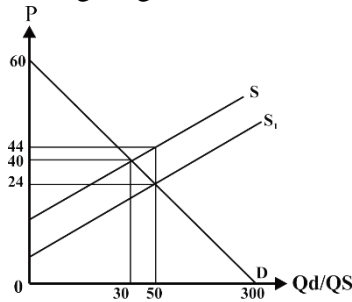
08. The supply curve related for a certain good is as follows.
Select the correct combination of relevant supply elasticity and effect towards the supply.

Supply elasticity	The effect towards the elasticity when points moving downwards.
1. Perfectly inelastic	Increases
2. Elastic	Increases
3. Inelastic	Decreases
4. Elastic	Decreases
5. Inelastic	Increases



09. Assume that, an institute has decided, there is an inelastic price demand for green peas. What would be the producer revenue if the institute has decided to reduce the supply of the commodity,
1. Increases
 2. Decreases
 3. Remains constant
 4. Decrease at a very small quantity
 5. Not certain
10. Calculate the consumer surplus when a certain commodity that $Q_d = 600 - 5P$ is going to be given at zero price by the institute.
1. Rs. 32000.00
 2. Rs. 40000.00
 3. Rs. 18000.00
 4. Rs. 72000.00
 5. Rs. 36000.00
11. Due to the unit tax imposed on a good that has perfectly inelastic demand.
1. No change is created in supply curve
 2. The commodity price is reduced by the same amount of taxation
 3. The demand curve shifts to right
 4. The commodity price is increased by the same amount of taxation
 5. Entire tax burden has to be gained by the producer

12. Following diagram illustrates the way of giving Rs. 20.00 of unit subsidy on rice market.



The advantage gained by the producer due to unit subsidy is,

1. Rs. 160.00
2. Rs. 200.00
3. Rs. 500.00
4. Rs. 240.00
5. Rs. 300.00

13. The considering commodity is at the equilibrium when,

1. Marginal benefit of the commodity equals to its price.
2. There is no tendency to change the market price
3. The prices are at the minimum level
4. The producer revenue is maximized
5. There is an excess demand and excess supply

14. Derive the new supply equation due to Rs. 12.00 of unit subsidy given on a certain commodity that the supply equation is, $Q_S = -200 + 5P$

1. $Q_S = -140 + 5P$
2. $Q_S = -260 + 5P$
3. $Q_S = 140 + 5P$
4. $Q_S = 240 + 5P$
5. $Q_S = 180 + 5P$

15. Which of the following would not be used to make the minimum price successful by the government?

1. Storing the surplus
2. Promoting the existing demand
3. Importing the good
4. Exporting the good
5. Creating by – products

16. In a certain market, if supply reduces at a higher percentage than the increase in demand, the effect towards equilibrium price and quantity is,

Equilibrium quantity	Equilibrium price
1. Reduces	No change
2. Increases	Reduces
3. Uncertain	Reduces
4. Increases	uncertain
5. Reduces	Increases

17. Along a downward sloped demand curve that slopes left to right, the producer revenue can be maximized when the elasticity is,

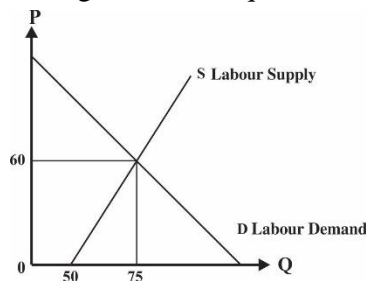
1. Perfectly inelastic
2. Perfectly elastic
3. Inelastic
4. Unitary elastic
5. Elastic elasticity

18. Select the statement that the meaning of production function is accurately discussed.

1. It was the way that commodities are produced using a certain technique .
2. It shows that there is a relationship between inputs and outputs.
3. It shows the relationship between labour and capital.
4. It accurately shows the maximum production of a commodity.
5. It shows the relationship between price and quantity supply of a certain commodity.

19. In calculating the production cost, if the implicit cost is lower estimated, the economic profit is,
1. Over estimated
 2. Under estimated
 3. No effect
 4. Equals to the accounting profit
 5. Zero
20. When the marginal production of labour equals to the average production of labour in a certain production institute,
1. The marginal production of labour equals to the variable cost .
 2. The marginal cost of production is minimized.
 3. Marginal cost equals to the minimum average cost.
 4. Average total cost is minimized.
 5. Marginal production and total production of labour are maximized.
21. What would be the meaning of emphasizing the supplier in a perfectly competitive market is a price taker?
1. The market price is determined by the supplier
 2. The market price is determined by the consumer
 3. The commodity is sold for a price, determined by the government
 4. The price and profit are determined by producers
 5. The total production is supplied for the price determined by market forces

22. A diagram of the equilibrium labour market is given below. The economic rent of this market is,



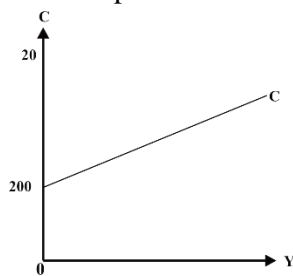
1. Rs. 2750.00
2. Rs. 7500.00
3. Rs. 1500.00
4. Rs. 3750.00
5. Rs. 750.00

23. A hidden economic activity in national accounting is,
1. Illegal economic activities that are not undergone for formal calculations.
 2. Legal economic activities that are not undergone for formal calculations.
 3. Activities in underworld economy
 4. Non-permitted gambling
 5. Illegal activities related to drug selling
24. In national accounting, the trade name, the goodwill are belonged to,
1. Productive, non – financial assets
 2. Non – productive financial assets
 3. Non – productive non – financial assets
 4. Productive assets included in accounts.
 5. non – productive and non – financial assets that are not included in accounts.
25. Which of the following would not be included in national accounting ?
1. Vegetables cultivated in home garden by housewives and consumed.
 2. Receiving a commission by a broker by selling a motor vehicle.
 3. Dividends paid on share holders.
 4. Property income paid on resource owners.
 5. Expenditure done by a company to purchase treasury bills.

26. Final consumption expenditure + Gross Domestic Capital formation + Net exports + Net primary income from the rest of the world equal to,
1. Gross national product at market price
 2. Gross domestic product at market price
 3. National income at market price
 4. Gross domestic product at basic price
 5. Gross National expenditure at market price
27. What would be the marginal propensity to consume in a simple economy where the equilibrium output is increased by Rs. 3000 million due to increase in investment by Rs. 150 million
1. MPC = 0.80
 2. MPC = 0.60
 3. MPC = 0.75
 4. MPC = 0.95
 5. MPC = 0.90
28. In an economy that government involves, the MPC = 0.6 Y
The investment multiplier and the tax multiplier of this economy are,

	Investment multiplier	Tax multiplier
1.	$K_I = 4$	$K_T = 1.5$
2.	$K_I = 10$	$K_T = 9$
3.	$K_I = 20$	$K_T = 19$
4.	$K_I = 2.5$	$K_T = 1.5$
5.	$K_I = 5$	$K_T = 4$

29. The consumption function that $C = a + by$ is illustrated by the following curve,



When points are moving along the curve, the possible effects related to marginal propensity to consume and average propensity to consume are,

MPC	APC
1. Constant	Constant
2. Decreases	Increases when point moves downward
3. Constant	Increases when point moves downward
4. Increase	Decreases when point moves downward
5. Increase	Decreases when point moves upward

30. A component that is not belonged to near money is,
1. Fixed deposit
 2. Exchange bill
 3. Agreed notes
 4. Demand deposit
 5. Savings deposit
31. Which of the following would cause to increase the demand for money balances with general public?
1. Increase in novelties in financial market
 2. Expectation of increasing treasury bill price in future
 3. Increase in real income
 4. Decrease in price level
 5. Increase in interest rate
32. What would be the largest component that is included in M_2 monetary aggregate in Sri Lanka at present?
1. Near money of the public held by Commercial Bank.
 2. Currency held by General Public.
 3. Demand deposits of the public held by Commercial Banks.
 4. Deposits held in non – residence foreign currency account.
 5. Deposits of residence in foreign currency banking units.

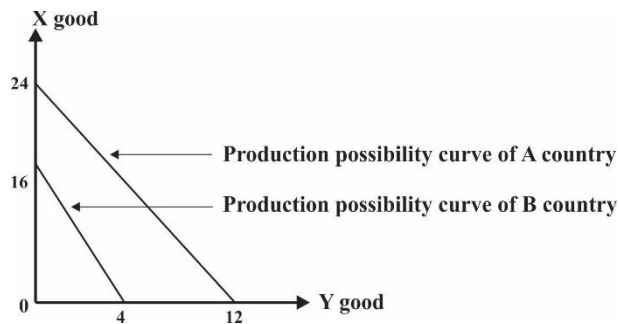
33. Which of the following would be identified as the monetary expansionary measures of the Central Bank
 A - Purchasing securities by the Central Bank
 B - Transferring the profit of the CB to the government
 C - Selling foreign exchange by the Central Bank in foreign exchange market
 D - Increasing the amount of statutory reserves.
 1. A,B,C 2. A,B 3. B,C 4. B,C,D 5. A,C
34. In a certain hypothetical economy, the nominal gross national product is increased by 8% and the inflation rate is increased by 12%.
 According to given information, the relevant accurate statement is,
 1. The money supply is increased by 4% 2. The velocity of money is reduced by 4%
 3. The real gross national product is decreased 4. The money supply is decreased by 4%
 5. The real gross national product is increased.
35. What would be the result of increasing the GNP deflator in an economy?
 1. Increasing the value of money 2. Increasing the absolute poverty
 3. Increasing all the prices 4. Increasing the standard of living
 5. Decreasing the purchasing power of money
36. In a certain commercial Bank that the required reserve is 20%, the excess reserve is Rs. 100 million and demand deposit of public is Rs. 500 million.
 If a depositor of this bank withdraws Rs. 100 million from his current account, what would be the excess reserve amount of this bank?
 1. Rs. 20 Million 2. Rs. 80 Million 3. Rs. 100 Million
 4. Rs. 120 Million 5. Rs. 200 Million
37. Select the good that has the ability to control the consumption and competition in consumption
 1. Theatre 2. Fishing resource in the sea
 3. Parks 4. Education
 5. Environmental conservation projects
38. At the equilibrium the benefit and cost of a certain good in a free market are as follows.

Item	Rupees
Private cost	240
Private benefit	260
External cost	80
External benefit	190

According to above information what would be the accurate statement related to the condition created due to the production of this commodity.

- The social benefit is lower than private benefit.
- The difference between social cost and social benefit is Rs. 110.00
- The social cost is lower than the social benefit.
- The social cost is Rs. 450.00
- The social benefit is lower than social cost

39. The effects of income tax imposition in Sri Lanka is progressive. What is meant by this?
1. High income earners pay a lower amount of rupee as tax than low income earners.
 2. High income earners pay a higher tax percentage than low income earners.
 3. Both high and low income earners pay an equal amount rupee as tax.
 4. High income earners pay a lower tax percentage than low income earners.
 5. Low income earners pay a higher amount rupee as tax than high income earners.
40. This is an example for the tax which cannot be shifted from one to another.
1. Sales tax
 2. Tax on domestic goods
 3. Custom duties
 4. Value added tax
 5. Tax on interest
41. Which of the following brings the highest expansionary effect towards the economy in financing the budget deficit ?
1. Selling securities to the public
 2. Obtaining a loan from employee provident fund
 3. Selling securities for commercial Bank
 4. Obtaining a loan from the central bank
 5. Selling securities for the National savings Bank
42. Regarding the rice production, which of the following would be more accurate if China is having the absolute advantage of producing rice than Sri Lanka.
1. China can produce less rice amount than Sri Lanka.
 2. Relative to Sri Lanka, China can produce rice at lower opportunity cost.
 3. Relative to Sri Lanka, China can produce rice at a lower resource cost.
 4. Compared to China, Sri Lanka shows higher efficiency in producing rice.
 5. By exporting rice, China acquires comparative advantage.
43. Using a certain resource unit, the alternative product combination of A country and B country are illustrated in a graph as follows.



According to given information,

1. B country gets the comparative advantage of producing X good
 2. Country A gets the comparative advantage of producing both X and Y goods
 3. B country gets the absolute advantage of producing X good
 4. B country gets the comparative advantage of producing Y good
 5. No advantage is created for both A and B through international trade
44. Which of the following would not be a main source to determine trade patterns among countries?
1. Location
 2. Specialization
 3. Changes in taste
 4. Gross domestic production
 5. Technological improvement and novelties.

45. Which of the following would be accurate, if two countries produce two goods by utilizing equal amount of resources and regarding both products if one country gets the absolute disadvantage ?
1. This country is unable to involve in international trade.
 2. This country has to import both goods.
 3. If a product can be produced at the lowest opportunity cost, the comparative advantage can be obtained.
 4. Can obtain the comparative advantage for producing both products
 5. Cannot obtain the comparative advantage for producing both products.

46. Identify the correct data related to export composition in Sri Lanka in 2017

	Agricultural exports	Industrial exports	Mineral exports
1.	22.3	77.0	0.7
2.	23.5	76.1	0.4
3.	25.2	74.5	0.3
4.	22.6	77.0	0.4
5.	24.4	75.2	0.3

47. Derive the import price of a certain economy if the terms of trade becomes unfavorable by 20% and increase in export price by 20% comparative to the base year.

1. Should increase by 30%
2. Should increase by 50%
3. Should increase by 60%
4. Should increase by 40%
5. Should increase by 20%

48. What is meant by economic globalization ?

1. Economically and culturally merging countries in different levels
2. Economically, politically and culturally merging countries in different levels.
3. Merging countries along foreign trade, technology and capital policies.
4. Merging countries in different levels along foreign trade, technology investment and foreign aid
5. Merging countries on the pillars of economic, social and environment.

49. The largest export and import markets of Sri Lanka in 2017 are,

	Export market	Import market
1.	Middle East	India
2.	India	United States of America
3.	United States of America	China
4.	United States of America	India
5.	China	Russia

50. The terms of trade become unfavorable for the Sri Lankan economy

1. When export capacity exceeds the import capacity
2. When import price is greater than export price
3. When export price is greater than import price
4. When export price increases and import price reduces
5. When the benefits of trade are minimized

- 03). i. Name the two forms of taxes imposed on commodities. Explain the difference between them. (3 marks)
- ii. Show the effect towards the producer surplus when the unit tax is imposed on the good that has an inelastic supply (4 marks)
- iii. Using a relevant diagram illustrate the changes occurred in equilibrium market due to impose in unit tax on buyers. (4 marks)
- iv. The demand and supply equations of rice market are as follow.
 $Q_d = 600 - 5P$ $Q_s = -200 + 5P$
- a) Draw the demand and supply curves and mark equilibrium price and quantity in the diagram (2 marks)
- b) What would be the consumer surplus if Rs. 60/= of maximum price is imposed by the government and if measures are taken to make it meaningful ? (3 marks)
- c) What would be the maximum black market price due to maximum price? (2 marks)
- d) Which steps can be taken by the government to make the maximum price meaningful ? (2 marks)
- 04). i. What is meant by the law of diminishing marginal returns ? What are the assumptions incurred with that? (4 marks)
- ii. Explain the sunk cost. (4 marks)
- iii. Discuss the relationship between the demand curve of a firm and the industry in a perfectly competitive market. (4 marks)
- iv. Explain the difference between producer surplus and economic profit. (4 marks)
- v. How to differ the oligopoly market from the monopolistic competition market ? (4 marks)
- 05). i. What is meant by the multiple – counting errors in calculating gross domestic production according to output approach. What are the alternative methods that can be taken to avoid the multiple counting errors. (4 marks)
- ii. What is meant by hidden economic activities ? What are the reasons for hiding them? (3 marks)
- iii. Mention main uses of calculating national accounts. (3 marks)
- iv. a) What are the components in aggregate expenditure ? (2 marks)
- b) Calculate the macro economic equilibrium of a simple economy when,
 $C = 400 + 0.6 Y$ and $I = 200$ (2 marks)
- c) If investments are increased by 200, calculate the change in equilibrium. (2 marks)
- iv. In a hypothetical economy certain information given as below.
 $C = 30 + 0.9Y_d$ $I = 80$ $G = 300$ $T = 120$
- a) Calculate the equilibrium price of this economy. (2 marks)
- b) Calculate the tax multiplier and investment multiplier of this economy. (2 marks)

B - part

- 06). i. What are the reasons for being the exchange is really inefficient and difficult in a barter economy ? (4 marks)
- ii. Why the demand for money balances is decreased by people due to price reduction of securities ? Explain. (4 marks)
- iii. Explain the cost push inflation using a diagram and mention main reasons for that. (4 marks)
- iv. What are the possible main reasons for the monetary expansion of a certain economy if the value of money multiplier remains constant in the short run ? (4 marks)
- v. Assume, in a certain hypothetical economy, the money supply (M_1) is Rs. million 3500, total bank deposit is Rs. 3000 million, excess reserves is Rs. 100 million and statutory reserve ration is 10%.
- a) What would be the high powered money supply of this economy? (2 marks)
- b) Calculate the value of money multiplier. (2 marks)
- 07). i. Using relevant diagrams illustrate the influence of income level of people to determine the demand for money balances on transaction motive and precautionary motive. (4 marks)
- ii. When core-inflation is calculated in Sri Lanka, which expenditure components are excluded from the considerable commodity basket, to note down the temporary price changes ? (4 marks)
- iii. Explain the measures taken by the Central Bank of Sri Lanka to make the rate of interest in interbank call money market stable and systematical.
- iv. Name well known credit rating institutions establish in the world to assess the feasibility of obtaining loans for a country, a company or a person. (3 marks)
- v. What are the significant monetary policy instruments used by the Central Bank in implementing monetary policy? (2 marks)
- vi. Assume a commercial bank that is in banking sector owns Rs. 36000 of reserves, Rs. 44000 of loans and investments and Rs. 80000 of deposits. The required reserve ratio is 20%.
- a) Does this bank have the ability to expand the credit ? Explain. (2 marks)
- b) If excess reserves are zero, what would be the maximum expansion of money supply of the banking system? (2 marks)
- 08). i. Explain the difference between public goods and common resources using examples. (4 marks)
- ii. Describe the "market failure" and "Government Failure". (4 marks)
- iii. What are the factors caused for government expenditures. (5 marks)
- iv. Discuss the difference between, vote on account and supplementary estimates. (4 marks)
- v. Examine the recent trends in state debt in Sri Lanka. (3 marks)

- 09). i. Explain the difference between the theory of absolute advantage and comparative advantage in international trade ? (4 marks)
- ii. What are the sources that affect to create absolute advantage? (4 marks)
- iii. Mention four static gains and four dynamic gains for comparative advantage. (4 marks)
- iv. Following table shows the production units of wheat and garments in USA and India utilizing the same amount of resources.

Country	Wheat	Garments
USA	40	30
India	10	20

- a) Is there any possibility of doing trade for both countries based on absolute advantage? Explain your answer. (2 marks)
- b) Calculate the opportunity cost of producing wheat and garments. (4 marks)
- c) Name the country that has the comparative advantage on wheat and the comparative advantage on garments. (2 marks)
- d) What would be the external exchange rate that wheat and garments are exchanged. (2 marks)
- 10). i. Name four non - tariff trade protectionism measures in international trade. (4 marks)
- ii. Give one example for each of consumer goods, investment goods and intermediate goods that are imported to Sri Lanka. (3 marks)
- iii. What are the 5 types of Balance of Payment (BOP) transactions according to the new structure? (5 marks)
- iv. Name non - produced non - monetary assets in an economy. (4 marks)
- v. Present a hypothetical model for current account of the Balance of Payment. (4 marks)