



**General Certificate of Education (A/L)**  
**Series of Supplementary Seminars - 2013**  
**Revision Question Paper**

Economics I

Time:- Two hours

*Preparation by the section of Commerce and Business studies in the Ministry of Education*

**Attention on:-**

- Answer all the Questions
- Select the most accurate or appropriate answer.

**All Right Reserved**

1. What is the positive statement that belongs to the micro economics from the following statements?

- (1) When the aggregate demand increases the price level also increases.
- (2) When the disposable income declines private savings also decline.
- (3) Exceeding 12% of the general price level of the country is unfavourable for the economy.
- (4) When the price of normal good increases the quantity demanded of it declines.
- (5) When the average interest rate increases the business investments decline.

2. The resource that is considered as an economic good from the following is,

- (1) The monsoon rain that is used in the paddy cultivation.
- (2) The sunlight that is used to dry pappadam.
- (3) The sunlight that is used to generate solar power.
- (4) The river water that is used to generate hydro-electricity.
- (5) The generated solar heat that is used to prepare food.

3. Several product combinations on a production possibilities frontier that illustrates X goods on the horizontal axis and Y goods on the vertical axis have been stated below.

X goods	Y goods
0	50
40	40
70	30
85	20
95	10
100	0

According to these data,

- (1) The opportunity cost takes a constant value at each of the product levels.
- (2) The technology that is used for the production of X and Y goods are equal in every hand.
- (3) The resources that are used for the X good are perfect substitutes for Y goods also.
- (4) When moving upwards along the production possibilities frontier the rate of opportunity cost gradually increases.
- (5) When moving upwards along the production possibilities frontier the rate of opportunity cost gradually declines.

4. The most accurate statement regarding the allocative efficiency of resources is

- (1) Distribution of scarce resources to produce combinations of goods and services according to the social preference.
- (2) Distribution of scarce resources to produce goods in a way to minimize the poverty.
- (3) To select the production method that uses more low-priced resources and less high-priced resources.
- (4) Distribution of resources among production functions in a way to minimize the disparity in income distribution.
- (5) Organizing the production activities that enables to receive a maximum output from a unit of input.

5. The most accurate statement regarding the price mechanism is,

- (1) The method of determining prices of goods and services on the demand and supply forces.
- (2) The method of determining prices of productive factors on the demand and supply forces.
- (3) The method of determining prices of goods and services and productive factors on the demand and supply forces.
- (4) The method of distributing the product on the price that is determined on the demand and supply forces.
- (5) The method of solving the basic economic problems based on the price that freely determines.

6. The problem of 'how to produce' is solved by the market economy,

- (1) Through responses for the price signals that are informed by the factor market.
- (2) Through the responses for the price signals that are given by the market for goods.
- (3) Through the responses that are made by common entrepreneurs for the government orders.
- (4) Through the responses made for the policies that are prepared to fulfill the target of equity.
- (5) Through the responses made by the private entrepreneurs on the minimum salaries and controlled interest rates.

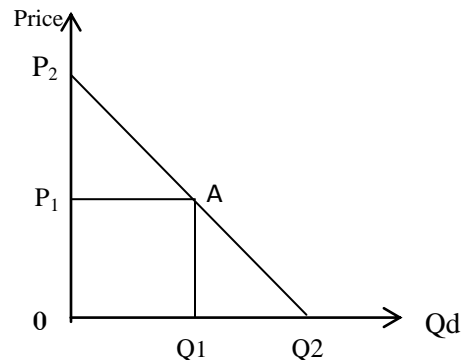
7. A cause for the demand curve for sugar to shift leftward is,

- (1) Declining of sugar price.
- (2) Increasing of jaggery price.
- (3) Increasing of tea leaves.
- (4) Declining of production cost of sugar.
- (5) Increasing the income of sugar consumers.

8. Which cause from the followings affects for the increase in quantity demanded of a normal good?

- (1) Increase in the consumers' preference and the price of substitutes for the good that is considered.
- (2) Increase in the nominal income of consumers and increase in price of substitutes.
- (3) Increase in the nominal income of consumers and relative price of that good.
- (4) Increase in consumers' real income and price of substitutes goods.
- (5) Decline of relative price of that good and increase in real income created by that.

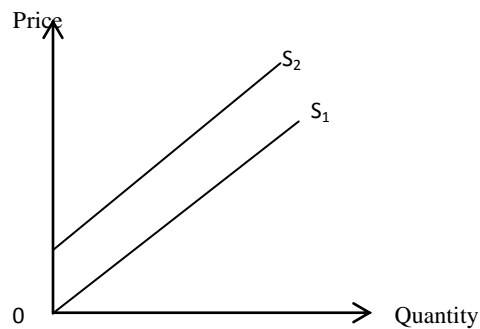
9. The demand curve regarding a certain good has been illustrated below and the mid point of that curve has been marked as A



What is the most accurate statement regarding the above demand curve?

- (1) The price elasticity of demand under the prices below  $P_1$  takes a value less than one and when the price declines the business revenue increases.
- (2) The price elasticity of demand under the prices above  $P_1$  takes a value greater than one when the price increases the business revenue declines.
- (3) The price elasticity of demand under the prices below  $P_1$  takes a value greater than one and when the price declines the business revenue declines.
- (4) The price elasticity of demand under the prices above  $P_1$  takes a value less than one and when the price declines business revenue increases.
- (5) The price elasticity of demand under the prices below  $P_1$  takes a value less than one and when the increases the business revenue declines.

10.



Which from the following statements is true regarding the  $S_1$  and  $S_2$  supply curves?

**The elasticity of each Point on the  $S_1$  Supply curve**

- (1) Unitary
- (2) Unitary
- (3) Less than one
- (4) Greater than one
- (5) Unitaty

**The elasticity of  $S_2$  supply curve When moving upwards along the curve**

- Declines until it is closer to one  
 Increases until it is closer to one  
 Declines until it is closer to one  
 Increases until it is closer to one  
 Gradually increases

11. The demand function regarding an agricultural good is  $Q_d = 60 - 5p$ . The total supply of this good was 30 units in the first season. In the second season, the supply was 40 units. According to these data the amount of consumers' surplus that increased was,

- (1) 35                      (2) 70                      (3) 90                      (4) 160                      (5) 180

12. 400 units of a certain good was sold at Rs.20/= each. After increasing the price up to Rs. 30/= the amount of sold decreased up to 200 units. Which was the cause for this incident from the followings?

- (1) Decline the price of a substitute good.  
 (2) Decline the price of a complementary good.  
 (3) Imposing a tax on the good that is considered by the government.  
 (4) Providing a subsidy on the good that is considered by the government.  
 (5) Declining the consumers' preference.

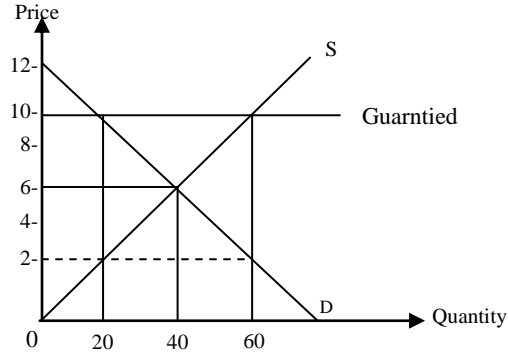
13. What is the most accurate answer that depicts accurately the change in the market due to the specific tax imposed on a producer regarding a good which has a normal demand and supply conditions.

<u>Consumers' surplus</u>	<u>producers' surplus</u>	<u>Social welfare</u>
(1) decreases	increases	decreases
(2) increases	increases	decreases
(3) descreases	decreases	no any effect
(4) descreases	decreases	decreases
(5) descreases	decreases	increases

14. The maximum price that a good with normal demand and supply conditions sold in a market has been prescribed by the government. And no any chance was given to create a black market price. What is the answer that accurately illustrates the incidents that can be compulsorily created in the market after imposing the maximum price legislation?

<u>The price that should be paid by the consumer</u>	<u>The price received by the producer</u>	<u>Social welfare</u>
(1) declines	increases	declines
(2) declines	declines	declines
(3) declines	declines	increases
(4) declines	increases	increases
(5) declines	no change	declines

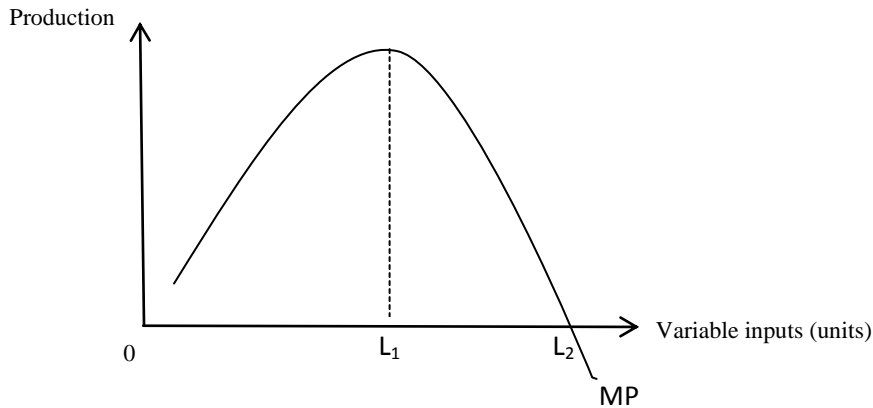
15. The following diagram illustrates a situation where the government operates a price – supporting scheme after imposing the guaranteed price and purchasing the excess supply.



According to the above diagram which one is the correct answer after imposing the the guaranteed price?

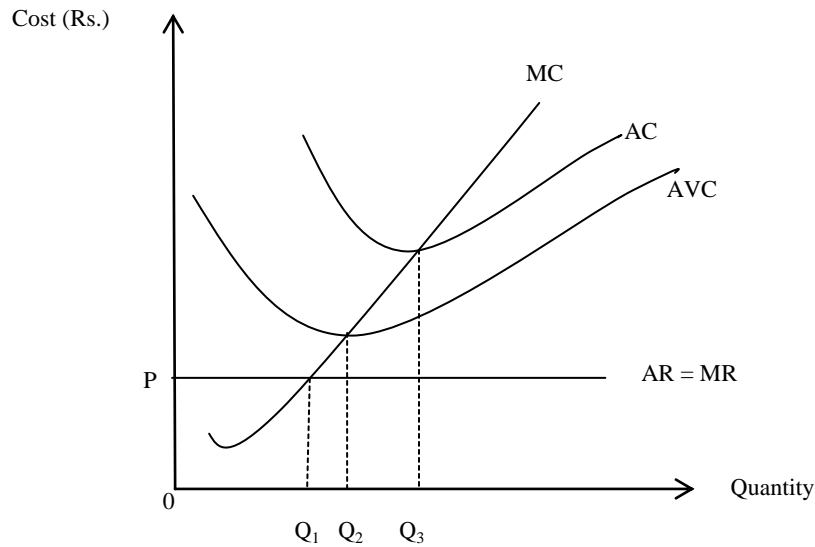
	<u>The expenditure incurred by the government</u>	<u>The increased amount of the economic surplus</u>	<u>Dead weight loss</u>
(1)	600	160	80
(2)	400	80	80
(3)	400	80	160
(4)	400	80	320
(5)	600	160	440

16. The following diagram illustrates the way that the marginal production relevant to the production process behaves. What is the accurate statement relevant to this curve?



- (1) When variable inputs are increased up to L1 the average product remains higher than the marginal product.
- (2) When variable inputs are increased greater than L2 the total product of the firm increases.
- (3) The total product reaches to the maximum at the L2 level of variable inputs.
- (4) When variable inputs are increased up to L1 the law of diminishing marginal productivity operates.
- (5) When variable inputs are increased from L1 to L2 the total product gradually declines.

17. The short term production cost curves in a perfectly competitive production firm are illustrated in the following diagram



According to the data in the diagram what is the most important decision that should be taken by the firm?

- (1) The profit should be maximized by increasing the output upto Q2
- (2) The Q3 output that makes the marginal cost and average cost equal, should be produced.
- (3) The output should be increased greater than Q3.
- (4) The production should be stopped.
- (5) The loss should be minimized indulging in the output level of Q1 by the firm.

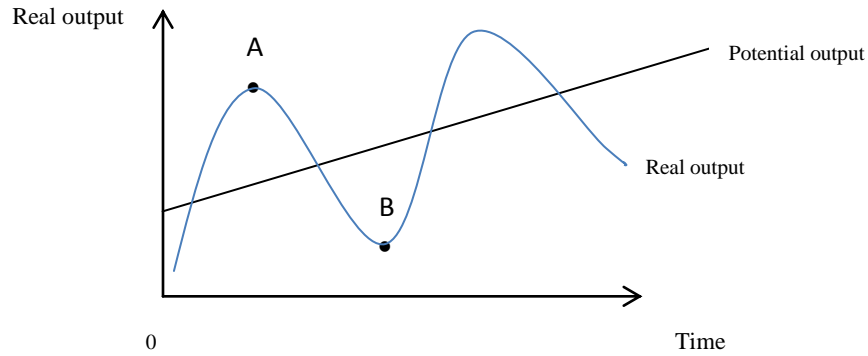
18. The following schedule illustrates the data regarding the short term cost in a perfectly competitive production firm.

<u>output (Units)</u>	<u>Marginal Cost (Rs.)</u>
1	50
2	30
3	10
4	14
5	26
6	40

If the total fixed cost of this firm is Rs.40/= the average cost at the output of 4 units is,

- (1) Rs.3.50      (2) Rs. 10      (3) Rs. 14      (4) Rs. 26      (5) Rs. 36

19.



which statement from the followings is true when the production point changes from A to B in the above diagram?

**How the aggregate demand changes**

- (1) increases
- (2) increases
- (3) declines
- (4) declines
- (5) declines

**Tendency of inflation or deflation**

- inflation
- deflation
- deflation
- inflation
- disinflation

20. Which from the followings is included in preparing national accounts?

- (1) Selling the house resided to Rs.2000000/=.
- (2) Purchasing a land for cultivation.
- (3) Purchasing shares from the share market.
- (4) Purchasing a new house from a property company.
- (5) Purchasing government treasury bills.

21. Followings are several datas of a hypothetical economy.

net domestic income	20000
net factor income from abroad	- 500
capital depreciations	4000
net indirect taxes	800

According to these datas the gross national product under the marketprice is,

- (1) 16,300
- (2) 19,200
- (3) 19,500
- (4) 24, 000
- (5) 24,300

22. What is the accurate method of calculating the national savings?

- (1) Domestic savings + net foreign factor income + net forein current transfers = National Savings
- (2) Domestic savings - net foreign factor income + net forein current transfers = National Savings
- (3) Domestic savings + net foreign factor income - net forein current transfers = National Savings
- (4) Domestic savings + net foreign factor income – government savings = National Savings
- (5) Domestic savings – private savings + government savings = National Savings

23. The average propensity to consume at the income of 2000 is 0.8 and the average propensity to consume at the income of 4000 is 0.7. The savings function of this simple economy is,

(1)  $S = -400 + 0.8 Y$

(2)  $S = 400 + 0.2 Y$

(3)  $S = -400 + 0.2 Y$

(4)  $S = -400 + 0.4 Y$

(5)  $S = -400 + 0.3 Y$

24. An economy with a marginal propensity to consume of 0.75 ( $MPC = 0.75$ ) should increase its production by Rs. 600 billions to reach the fully employed equilibrium production level. By what amount should the investment be increased for that?

(1) Rs.15 billions

(2) Rs. 75 billions

(3) Rs.150 billions

(4) Rs.300 billions

(5) Rs.600 billions

25. In an economy only with independent taxes the equilibrium output level is Rs.1760/= millions and the following details have been provided.

$C = 300 + 0.75 y_d$

$I = 100$

$T = 100$

The government consumption expenditure of this economy is Rs. Billions,

(1) 100

(2) 115

(3) 300

(4) 325

(5) 375

26. When explaining the quantity theory of money what is assumed to be constant,

(1) money supply and real output

(2) national product to the current price and the price level

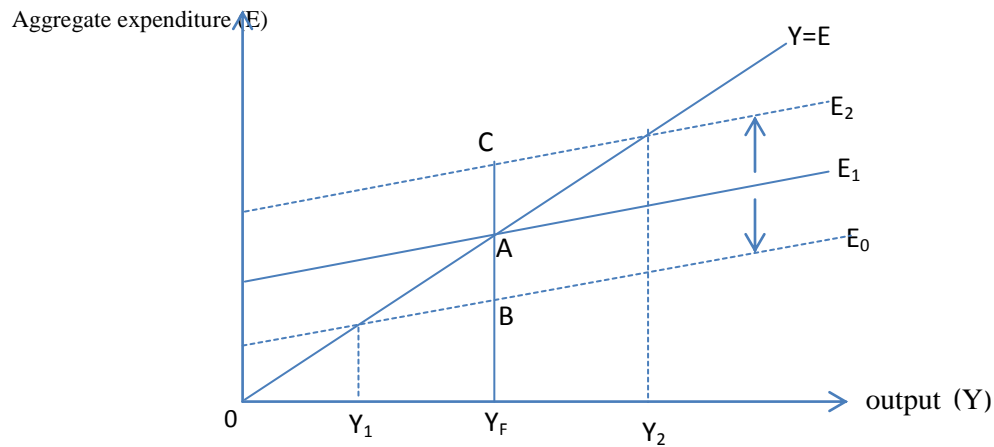
(3) money supply and the velocity of money circulation

(4) money supply and the price level

(5) Amount of trans actions and the velocity of money circulation.



27. The output level that is relevant to the fully – employment level of the economy is  $Y_F$ . The existing aggregate expenditure is  $E_0$



According to the above diagram what is the answer that was accurately arranged the deflationary gap and the factor that can affect on it?

**Deflationary gap**

**Factors that affect on it**

- |     |       |                                |
|-----|-------|--------------------------------|
| (1) | A - C | Increase in money supply       |
| (2) | A - B | Decrease in money supply       |
| (3) | A - B | Increase in money supply       |
| (4) | A - C | Reduction in money supply      |
| (5) | A - B | Decrease in the interest rate. |

28. A reason that affects for shifting of aggregate demand curve for money to the right is,

- (1) Increase in interest rate
- (2) Increase in price of bonds
- (3) Reduction of private income.
- (4) Shortening of income earning time period.
- (5) Increase in income level.

29. You have been provided the following details of a hypothetical economy.

• Commercial bank deposits held at the central bank	100
• Public currencies	250
• Currencies at commercial banks	50
• Public demand deposits at the commercial banks	200
• Time and savings deposits at commercial banks	1450
• Total number of non-residential foreign currency deposits	150
• Residential deposits at foreign currency banking units	200

According to the above data the narrow money and broad money multipliers are,

	<u>M<sub>1</sub> narrow money multiplier</u>	<u>M<sub>2</sub> broad money multiplier</u>
(1)	0.7	4.3
(2)	0.9	4.75
(3)	1.1	4.75
(4)	4.70	5.6
(5)	4.75	1.1

30. You have been provided the following details of a certain economy. The stock of public currencies is Rs.1000/= The reserve ratio that is ordered by the central bank to be maintained at the commercial banks is 10% . The balance of payment relevant to the commercial banking system is as follows.

Total deposits	<u>1000</u>	Reserves	<u>125</u>
		Loans	<u>875</u>
	<u>1000</u>		<u>1000</u>

In the above banking system loans are expanded until the excess reserves if the become zero what is the total amount of deposits and the narrow money supply (M<sub>1</sub>) in that occasion?

	<u>Primary deposit</u>	<u>Narrow money supply (M<sub>1</sub>)</u>
(1)	1250	2250
(2)	1125	2125
(3)	1250	1250
(4)	2250	3250
(5)	2250	1250

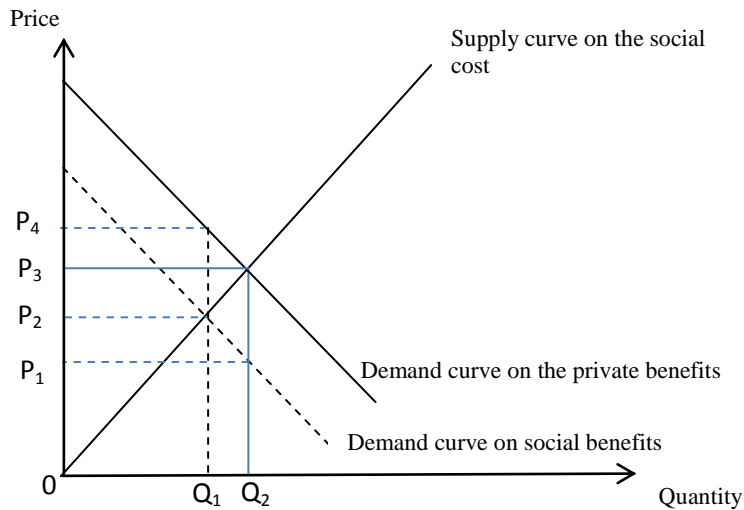
31. Select the accurate statement from the followiings.

- (1) The re- selling rate of treasury bills.depicts the lower limit of the interest rate corridor.
- (2) The gap between the upper and lower limit of interest rate corridor braden due to the maintaining of stability in the monetary system.
- (3) The increase in net foreign assets of the central bank causes for the contraction of the money base.
- (4) The amount of reserves held at the banking system declines because of purchasing commercial bank securities by the central bank.
- (5) The amount of reserves owned by the banking system does not change due to the treasury bills.

32. The reason for the market failure is,

- (1) absence of difference between the private cost and the private benefits.
- (2) absence of difference between private cost and the total benefits.
- (3) absence of difference between private benefits and the total cost.
- (4) existence of difference between private cost and the total cost.
- (5) existence of a equilibrium between the private cost and the private benefits.

33. Following diagram illustrates the demand and supply conditions regarding a certain good that exchanges in a market economy.



According to the above diagram, the answer that accurately arrange the external source, external cost or the benefit and the optimum consumption regarding the society is,

<u>External source</u>	<u>External/Cost/Benefit</u>	<u>Optimum consumption</u>
(1) Positive externality in production	P3 – P1 external benefit	Q1
(2) Negative externality in production	P3 – P2 external cost	Q2
(3) Positive externality in consumption	P4 – P2 external benefit	Q1
(4) Negative externality in consumption	P4 – P2 external cost	Q1
(5) Negative externality in consumption	P3 – P1 external cost	Q2

34. What is the accurate answer that depicts the structure of the government expenditure in Sri Lanka according to the economic classification ?

(1) Goods and services	Interest payment	Current transfers
(2) Current expenditure	Capital expenditure	Net lending
(3) Normal and public services	Social services	Economic services
(4) Goods and services	Social services	Economic services
(5) Capital expenditure	Transfer expenditure	Interest payments

35. Due to the imposition of taxes on a certain good by the government the excess tax burden is created,

- (1) When the greater part of the total tax is shouldered by the producer.
- (2) When the greater part of the total tax is shouldered by the consumer.
- (3) When there is no change in the production surplus.
- (4) When the economic surplus is harmed.
- (5) When the consumers' and production costs increase.

36. Calculate the balance of the primary account and the balance of the current account in the government budget associating the following data.

Tax income	800
Interest payments	280
Capital expenditure	520
Current expenditure	850
Non-tax income	100

	Balance of the primary accounts	Balance of the current accounts
(1)	-470	-380
(2)	270	330
(3)	-190	-350
(4)	-190	50
(5)	-50	190

37. In the X and Y countries where wheat and cloths are produced the amount of labour units required to produce one unit of wheat and the amount of labour units required to produce one unit of cloths have been stated below.

	X country	Y country
Labour hours to produce one unit of wheat	5	8
Labour hours to produce one unit of cloths	2	4

According to the above details the most accurate answer is that,

- (1) The absolute advantage of producing one unit of cloths is gained by the Y country.
- (2) The comparative advantage of producing wheat is gained by the X country.
- (3) The absolute advantage of producing wheat is gained by the Y country.
- (4) The comparative advantage of producing wheat is gained by the X country while the Y country owns the comparative advantage of producing cloths.
- (5) The comparative advantage of producing wheat is gained by the Y country where as X country owns the comparative advantage of producing cloths.

38. Several hypothetical datas regarding the international trade have been stated below

Export price index	120
Export scale index	125
Import price index	150
Export value index	175

According to the above details, the answer that contains the terms of trade in goods and terms of trade in income accurately is,

	<u>terms of trade in goods</u>	<u>terms of trade in income</u>
(1)	116	125
(2)	116	83
(3)	80	116
(4)	80	65
(5)	68	83

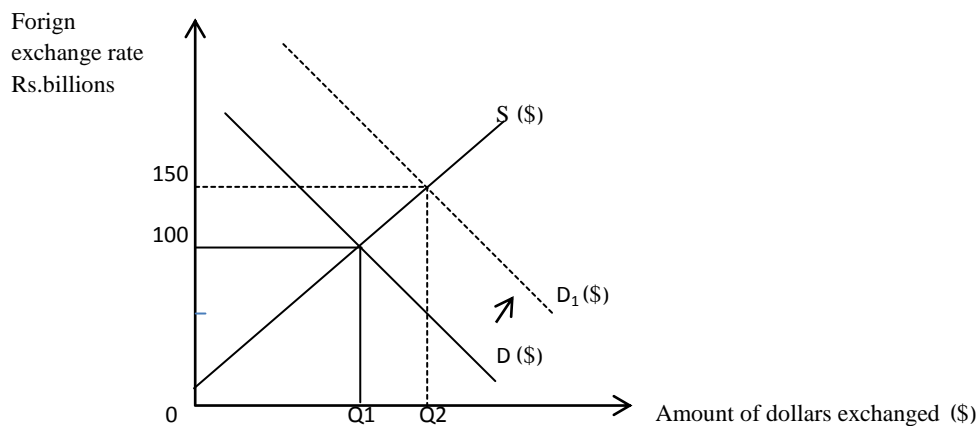
39. A summary of hypothetical details relating to the balance of payment is stated below

<u>Items</u>	<u>Value (Rs. billions)</u>
exports	24
the balance of the trade accounts	-23
the balance of the service accounts	6
net value of investment income	-12
financial changes	15

According to the above details the value of visible imports and the balances of capital and financial account is,

	<u>Visible imports</u>	<u>capital and financial account balances</u>
(1)	47	14
(2)	47	-14
(3)	42	6
(4)	37	15
(5)	1	-15

40. The following diagram illustrates how the foreign exchange rate changes on the changes of demand for the foreign exchange



Which one from the followings might cause for the above change ?

- (1) Decline of the domestic price level relatively to the countries of trade partners.
  - (2) Increase in the domestic price level relatively to the countries of trade partners.
  - (3) Increase in the price level of trade partners relatively to the domestic price level.
  - (4) Increase in the competition of exports in Sri Lanka.
  - (5) Expansion of export based industries in Sri Lanka.
41. The most powerful argument that is raised against the globalization by the developing countries is that,
- (1) Benefits are viciously spread.
  - (2) Economic crisis created in a country spread fast to other countries.
  - (3) Domestic macro economic management is difficult.
  - (4) Environmental pollution gets accelerated due to the fast industrialization.
  - (5) International terrorism and drug crisis mostly spread.
42. The growth of the nominal gross domestic production, the inflation rate and the population growth rate in a certain country are 8%, 4.6% and 1.4% respectively. If so, the percentage growth of the real gross domestic product is approximately
- (1) 1%.      (2) 2%.      (3) 3.4%.      (4) 4.3%.      (5) 6.6%.
43. The decline of the living standard of a country is caused by,
- (1) Increase in income less speedier than the growth of population .
  - (2) Increase in the price level more speedier than the growth of population.
  - (3) Reduction of population when the gross national product is held constant.
  - (4) Increase in the gross domestic product more speedier than the population growth.
  - (5) Constant existence of population and the gross domestic product.
44. Gini – Coefficient is used to measure,
- (1) Absolute poverty level.
  - (2) Disparity of income distribution.
  - (3) Inter poverty level.
  - (4) Economic growth level.
  - (5) Economic stability.

45. What is the answer that contries the accutare population poverty index and the poverty in the rural sector in Sri Lanka at present ?

	<u>population poverty index</u>	<u>poverty in the rural sector</u>
(1)	15.7	6.7
(2)	11.4	8.9
(3)	9.4	5.3
(4)	8.9	5.3
(5)	8.9	9.4

46. The five districts which have the greatest populationdensity in Sri-Lanka are respectively,

- (1) Colombo ,Galle ,Kandy ,Gampaha,Kegalle.
- (2) Colombo,Gampaha,Kaluthara, Galle.
- (3) Colombo ,Kandy ,Galle ,Kaluthara, Gampaha.
- (4) Colombo, Gampaha, Kaluthara, Kandy, Galle.
- (5) Colombo, Galle, Gampaha, Kandy, Kurunegala.

47. If the population in a certain country is 20 millions, the active population is 8 millions and unemployed population is 2millions the labour –force participation ratio and the unemployed population rate are respectively?

- (1) 40% and 10 % .
- (2) 60% and 83 % .
- (3) 83% and 20 % .
- (4) 60% and 20 % .
- (5) 50% and 10 % .

48. What is the human development index of Sri Lanka in 2011 and mention the position that was received by Sri Lanka among other countries ?

	<u>Human development index(HDI)</u>	<u>The position earned</u>
(1)	0.669	92
(2)	0.791	92
(3)	0.715	92
(4)	0.695	97
(5)	0.675	97

49. The programmes that are expected to be operated through the “Randora” programme which is operating in Sri Lanka are,

- (1) Increasing power and energy,harbour and airport development.
- (2) Roads, irrigation and Maga Neguma .
- (3) Harbour and airport, highways and education reforms.
- (4) Water supply and sanitation, Grmi Diriya,Gemi Pubuduwa.
- (5) Gama neguma, Maga Neguma, Gemi Diriya, Gemi Pubuduwa.

50. A target that was not still fulfilled by Sri Lanka out of the millennium development goals is ,

- (1) Providing primary education to all.
- (2) Uplifting the percentage of female participation in non agricultural fields and salary – earning employments.
- (3) Reducing the mortality rate of children less than 5 years of age.
- (4) Uplifting the percentage of children less than 01 year of age who were vaccinated against measles.
- (5) Reducing the infant mortality rate.

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