



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

**Economics II**

Time – Three hours

All Right Reserved

*Preparation by : The Commerce and Business Studies Branch in the ministry of Education.*

**Attention on** : Answer five questions selecting at least two questions form each part.

1. (i) Which production factor do the followings belong to?

- (a) Mineral deposit.
- (b) Bulls used in the paddy cultivation.
- (c) Repairing a vehicle by a craftsman.
- (d) Operating a livestock development plan by the government. (04 marks)

(ii) A certain country produces industrial goods (vertical axis) and agricultural goods (horizontal axis) by utilizing the stock of resources fully and efficiently. The details regarding that production possibilities curve has been stated below.

<b>Industrial goods</b>	<b>Amount of agricultural goods sacrificed</b>
0	-
10	5
20	10
30	15
40	20
50	50

- (a) Draw the production possibilities curve associating the above details. (02 marks)
- (a) What can you tell about the manner of resources and the production methods in the above economy? (02 marks)
- (c) If the society expects a product combination of 30 industrial and 85 agricultural goods explain the problem that the economy has faced. (02 marks)
- (d) “The production possibilities curve shifts to the right with the economic growth of the country. By that, the problem of scarcity does not further create”. Explain. (02 marks)
- (iii) What kind of function is fulfilled by the price mechanism towards the economic agents in a market economy? (03 marks)
- (iv) Briefly mention how the problem of production is solved by the alternative economic systems (03 marks)
- (v) Under which condition is the market economic system **not** perfect as a method of solving basic economic problems? (02 marks)

2. (i) Explain the law of supply and mention why the supply curve slopes upwards. (04 marks)  
(ii) The details of market demand and supply regarding a certain good have been stated below.

Price of a unit	Quantity demanded	Amount of excess supply
10	1000	-1000
40	400	200

- (a) What is the market equilibrium price and the equilibrium quantity of the above good? (02 marks)
- (b) If a specific subsidy of Rs.10/= is provided for a unit of that good by the government mention the followings.
- (i) New equilibrium price and the equilibrium quantity (02 marks)
  - (ii) Consumer's surplus before and after the subsidy (02 marks)
  - (iii) producer's surplus before and after the subsidy (02 marks)
  - (iv) The government expenditure on the subsidy (01 marks)
  - (v) Dead weight loss due to the subsidy (01 marks)
- (iii) Mention the determinants of price elasticity of demand. (03 marks)
- (iv) "The amount of economic rent included in the factor earnings determines on the elasticity of supplying factors". Analyze this statement. (03 marks)
3. (i) Distinguish between diminishing returns and diminishing returns to scale. (04 marks)
- (ii) (a) Explain how the accounting profit differs from the economic profit? (04 marks)  
(b) Can the normal profit be considered as a cost of the production process? Explain your answer. (03 marks)
- (iii) Is the expenditure made on purchasing certain fixed assets in a production process considered as a "sunken cost" ? Explain. (03 marks)
- (iv) (a) Distinguish between a monopolistic market and an oligopolistic market. (04 marks)  
(b) Explain through illustrations the short term supply curve of a perfectly competitive market and the point where the production is stopped. (04 marks)

4. Followings are hypothetical datas of a certain economy.

	Rs. Million
property income received from foreign countries .....	50
net interest .....	200
labour earnings .....	1000
government transfer expenditure on household .....	300
divided profits .....	60
net indirect taxes .....	200
rental income .....	300
gross domestic product .....	1900
undivided profits .....	40
export .....	400
imports .....	200
net foreign current transfers.....	70

taxes on corporate profits .....	50
gross investment .....	300
private taxes .....	100
income earned but not received by household.....	250
property income paid to the foreign countries .....	100

- (i) Calculate the followings
- (a) National income.
  - (b) Net domestic product (under the market price)
  - (c) Gross national products (under the market price)
  - (d) Disposable household income
  - (e) National savings. (10 marks 02 marks each)

- (ii) Explain the following incidents with reasons.
- (a) The national product was a less value than the gross domestic product of a country.
  - (b) The gross domestic fixed capital formation was a greater value than the gross domestic capital formation.
  - (c) The real national income was a greater value than the real national product of a certain year.
  - (d) The gross national product to the fixed price grew less speedier than the speed of growth in the gross national product to the current price.
  - (e) The gross domestic product was a low value than the gross domestic expenditure. (05 marks)

- (iii) (a) What are the unobserved economic activities in a certain economy. (03 marks)
- (b) What are the effects made on national accounting calculations due to those economic activities ? (02 marks)

5. Answer the following questions associating the details given below regarding a certain economy. (numerals in Rs. millions)

Marginal propensity to consume (MPC) = 0.75  
Investment (I) = 225  
Autonomous consumption (a) = 150

- (i) (a) Calculate the equilibrium. (02 marks)
- (b) Illustrate the curves of the aggregate expenditure, aggregate withdrawals and injections in a diagram. (02 marks)
- (ii) The government purchases goods and services valued Rs.40 millions involving in this economy. And, a household is given Rs. 40 millions as transfers and Rs. 60 millions is charged as an independent tax.
- (a) Illustrate the new equilibrium. (02 marks)
  - (b) Illustrate that withdrawals and injections are equal at that situation in the economy. (02 marks)

- (iii) The product should be increased by Rs. 600 millions to reach the full employment equilibrium level of a country. For this by how much should the investment be increased in this economy? (04 marks)
- (iv) (a) If the aggregate demand increases even after the full employment equilibrium product level what type of condition can be created in the economy. Explain through illustrations. (03 marks)
- (b) Mention the components relevant to the aggregate demand of an open economy. (02 marks)
- (v) What are factors that affect for the household consumption? (03 marks)

6. (i) Explain what the base money is and how it relates to the money supply. (04 marks)
- (ii) The combined balance paper of a commercial banking system has been stated below

Assets		Liabilities	
Deposits	500	Reserve money	70
		Treasury bills	130
		Loans and advances	300
	<u>500</u>		<u>500</u>

The reserve rate ordered by the central bank is 20%. Build up the new combined balance paper after making required adjustments to maintain this banking system in a stable situation. Explain the Multi Deposit contraction. (04 marks)

- (iii) How does the central bank involve efficiently in creating inter-bank call money market interest rates? (04 marks)
- (iv) (a) What are the objectives of the central bank? (02 marks)
- (b) Mention the major functions of the central bank. (03 marks)
- (v) How is the monetary policy used to expand the aggregate demand? (03 marks)
7. (i) (a) Explain the concepts of “Market Failure” and “Government Failure” with reasons that affect for those. (02 marks)
- (b) To which category do the following goods belong? Explain with reasons. (05 marks)
- (a). Clock tower
- (b). Ozone layer
- (c). Education
- (d). A swimming pool
- (e). Fish in the ocean
- (ii) “ When leading the economy towards macro-economic objectives it is highly criticized to use a recycled government monetary policy” Explain this statement. (03 marks)
- (iii) (a) What is meant by the equity in the tax system? (03 marks)
- (b) Explain the types of progressive taxes, regressive taxes and proportional taxes with examples. (03 marks)

- (c) What is meant by excess tax burden? Explain how its operation is determined on the elasticity of demand through diagrams. (03 marks)
- (iv) Mention how the budgetary deficit of Sri Lanka was financed in 2011 and discuss its impacts. (02 mark)

8. (i) Followings are the amount of outputs that can be produced with one labour unit in each country.

Country	Radios	Computers
Chaina	4	10
Taiwan	1	5

Hypothesise that each country has 100 labour units.

- (a) Witch county earns the comparative advantage of producing radios and computers. (02 marks)
- (b) Illustrate the production possibilities curves in each country. If a full specialization is done based on the comparative advantage illustrate the product combinations at each country on the production possibilities curves. (02 marks)
- (c) After the specialization based on the comparative advantage if 100 radios and 400 computers are exchanged illustrate on the same diagram the consumption abilities of each country. (02 marks)
- (d) Mention the range of external exchange rate that both countries receive mutual advantages. (02 marks)
- (ii) In which accounts of Balance of payments are the following transactions included?
- (a) The loan interest paid to the foreign countries.
- (b) Paying the loan term foreign loans taken by the government back.
- (c) Remittances sent to this country by Sri Lankans who work in foreign countries.
- (d) Purchasing air tickets by Sri Lankan businessmen to go to foreign countries. (04 marks)
- (iii) Distinguish between nominal precautionary rate and the effective precautionary rate. (02 marks)
- (iv) Mention two advantages and two disadvantages each of the fixed foreign exchange rate and the nominal foreign exchange rate. (04 marks)
- (v) Mention four zonal economic associations that Sri Lanka has joined. (02 marks)

9. (i) Define economic growth and name some suitable actions for the economic growth development. (04 marks)
- (ii) Define the concepts of “Total Participation of Economic Growth” and “Poor Friendly Growth”. (04 marks)
- (iii) Introduce “human development” and “sustainable development” mention their dimensions. (04 marks)
- (iv) (a) Mention the tendencies of dependent rates in Sri Lanka (02 marks)
- (b) What are the social and economic effects of population becoming old? What do you identify as policy actions that are suitable to minimize those effects? (04 marks)
- (v) How is the Multi – dimensional poverty index calculated for a country. (02 marks)
10. (i) (a) What are the targeted goals of economic development and investment in the ten year vision, Development Frame which was forwarded in the year 2006. (02 marks)
- (b) Explain whether the Sri Lankan economy could reach to the target of the Ten Year vision during the past five years of time. (02 marks)
- (c) What are the challenges that the Sri Lankan economy faces in fulfilling the economic growth and investments? (03 marks)
- (ii) “A major problem that Sri Lankan economy faces in fulfilling the targets of economic growth is the lack of capital or the investment gap”
- (a) What is meant by “lack of capital”? What are the sources that can be used to settle down that? (02 marks)
- (b) What is the current tendency of foreign direct investments that inflow to Sri Lanka? (02 marks)
- (c) What are the major obstacles of the investment field? (03 marks)
- (iii) “During the past two decades even if poverty in Sri Lanka declined there are still total sectorial disparities”.
- (a) Emphasize the above statment. (02 marks)
- (b) What are the divisional and national level programmes operated to reduce poverty in Sri Lanka? (02 marks)
- (c) What are the weaknesses of the Samurdhi programme as an action of reducing poverty? (02 marks)

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