AL/2020/21/E-II (NEW)

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NEW

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இலங்கைப் பரீட்சைத் திணைக்களம்
Department of Examinations, Sri Lanka

අධ්‍යයන පොදු සහතික පත්‍ර (උසස් පෙළ) විභාගය, 2020
கல்விப் பொதுத் தராதரப் பத்திர (உயர் தர)ப் பரீட்சை, 2020
General Certificate of Education (Adv. Level) Examination, 2020

ආර්ථික විද්‍යාව	II
பொருளியல்	II
Economics	II

21 E II

පැය තුනයි
மூன்று மணித்தியாலம்
Three hours

අමතර කියවීම් කාලය - මිනිත්තු 10 යි
மேலதிக வாசிப்பு நேரம் - 10 நிமிடங்கள்
Additional Reading Time - 10 minutes

Use additional reading time to go through the question paper, select the questions you will answer and decide which of them you will prioritise.

Instructions:

❋ *Answer five questions only, selecting minimum of two questions from Sub-section 'A' and two questions from Sub-section 'B'.*

❋ *Graph papers will be provided.*

Sub section 'A'

(Select minimum of two questions from this section.)

1. (i) What is meant by scarcity? Explain the problem of scarcity using a production possibilities curve. (03 *marks*)

 (ii) Why productive inefficiency and allocative inefficiency are considered wasteful in resource utilization? (04 *marks*)

 (iii) What are the main functions of an economic system? (03 *marks*)

 (iv) Explain what happens to a country's production capacity due to a pandemic such as Covid-19 using a production possibilities curve. (05 *marks*)

 (v) Explain why the division of labour causes increases in the level of production in an economy. (05 *marks*)

2. (i) What is the difference between the demand and the quantity demanded of a product? Show the difference on a diagram. (04 *marks*)

 (ii) Define normal, inferior, and luxury goods using the concept of income elasticity of demand. (03 *marks*)

 (iii) Name **three** non-price rationing methods used in the allocation of goods in an economy. (03 *marks*)

 (iv) In a small town, the market for bread is represented by the following demand and supply equations.

 $Q_D = 110 - P$ (Demand) $Q_S = -40 + 2P$ (Supply)

 (a) Find the equilibrium price and quantity in this market. (02 *marks*)

 (b) Calculate the total surplus at the equilibrium. (04 *marks*)

 (c) Calculate the price elasticity of demand for bread at the price of Rs. 60. (04 *marks*)

(i) Distinguish between a 'price ceiling' and a 'price floor'. (04 *marks*)

(ii) Why does a price ceiling create an excess demand for a good? Explain your answer using a diagram. (04 *marks*)

(iii) Why does a producer subsidy create a deadweight loss? Illustrate your answer using an appropriate diagram? (04 *marks*)

(iv) A competitive market has a demand function given by the equation $Q_D = 180 - 2P$, and a supply function given by the equation $Q_S = -15 + P$. Calculate the amount of deadweight loss that would result from a price floor imposed in this market at Rs. 72 per unit. (08 *marks*)

(i) What is a production function? Distinguish between short run and long run production functions. (03 *marks*)

(ii) What are the reasons for economies of scale and diseconomies of scale? (04 *marks*)

(iii) What is the relationship between economic profit, producer surplus and fixed cost? (03 *marks*)

(iv) What is economic rent? Under what conditions a factor of production can earn an economic rent? (04 *marks*)

(v) How do you derive the industry's short run supply curve from the firms' short run supply curves in a perfectly competitive industry? Illustrate your answer with appropriate diagrams. (06 *marks*)

(i) State whether the following activities are included in the calculation of Sri Lanka's Gross Domestic Product and explain the reasons for your answer.

  (a) An investor purchases Rs. 1 million of newly issued shares of a Sri Lankan company.

  (b) Construction of a new house worth of Rs. 50 million.

  (c) The purchase of Rs. 50 000 worth of fish by a restaurant in Colombo from a fisherman.

  (d) Collection of Rs. 5 000 worth of bee honey by a farmer from a nearby forest.

  (e) A research project costing Rs. 10 million completed by a university research team on the economic impact of Covid - 19.

  $(01 \times 5 = 05 \, marks)$

(ii) You have been given the following data for a hypothetical economy.

Item	Value (Rs. billion)
Aggregate consumption expenditure	10 000
Gross domestic capital formation	4 000
Export of goods and services	3 500
Import of goods and services	4 500
Net primary income from the rest of the world	– 400
Net current transfers from the rest of the world	1 000

Calculate the following based on the above data.

  (a) Gross National Income (02 *marks*)

  (b) Gross National Savings (02 *marks*)

(iii) The following model represents a closed economy with no government.

$$C = 500 + 0.8Y \qquad\qquad I = 600 \text{ (values are in Rs. billion)}$$

    (a) How much is the autonomous expenditure in this economy?   (02 *marks*)

    (b) What is the equilibrium level of aggregate output?   (02 *marks*)

    (c) What is the value of investment multiplier?   (02 *marks*)

(iv) Explain the differences between aggregate expenditure function and aggregate demand curve using appropriate diagrams.   (05 *marks*)

Sub section 'B'

(Select minimum of two questions from this section.)

6. (i) What is the quantity theory of money?   (04 *marks*)

  (ii) What are the costs of inflation?   (04 *marks*)

  (iii) What are the major determinants of demand for money?   (03 *marks*)

  (iv) State **four** core functions of the Central Bank of Sri Lanka.   (04 *marks*)

  (v) Assume that in a hypothetical economy during a given period of time, total money stock (M) was Rs. 6 400 billion, total amount of bank deposits (D) held by the public was Rs. 5 200 billion, statutory reserve ratio was 10% and the value of excess reserves held by the banks was Rs. 280 billion.

    (a) What was the total amount of high-powered money in this economy?   (03 *marks*)

    (b) What was the value of money multiplier?   (02 *marks*)

7. (i) State whether the following goods and services can be considered as pure public goods. Give reasons for your answer.

    (a) Lighthouses

    (b) Ocean fish

    (c) The Internet   (03 *marks*)

  (ii) Name **two** merit goods and explain why they are considered as merit goods. (04 *marks*)

  (iii) Distinguish between 'appropriation bill' and 'vote on account'.   (04 *marks*)

  (iv) What are the non-tax revenue sources of the government of Sri Lanka in the recent years?   (04 *marks*)

  (v) Why does a free market overproduce a good with negative externalities? Illustrate your answer with a diagram.   (05 *marks*)

8. (i) Distinguish between comparative advantage and competitive advantage.   (04 *marks*)

  (ii) What are the major obstacles Sri Lanka encounters to achieve a rapid growth in export earnings?   (05 *marks*)

  (iii) What is meant by official reserve assets in a country? List its major components. (05 *marks*)

  (iv) Is it possible to have a comparative advantage in the production of a good without having an absolute advantage? Explain your answer with a numerical example.   (06 *marks*)

9. (i) Outline the main sources of economic growth. (04 *marks*)

   (ii) What are the key limitations of Human Development Index as a measure of development? (05 *marks*)

   (iii) "Samurdhi programme has had a minor and decreasing impact on poverty reduction in Sri Lanka". Do you agree with this statement of the World Bank? Give reasons for your answer. (05 *marks*)

   (iv) Describe how the demographic changes are imposing new challenges to social safety net for elderly population in Sri Lanka. (06 *marks*)

10. (i) What is the Fourth Industrial Revolution (4IR)? Is Sri Lanka ready to face it? Explain your answer. (05 *marks*)

    (ii) Describe briefly the economic impact of Covid - 19 pandemic on Sri Lanka. (05 *marks*)

    (iii) "Sri Lanka has failed to sustain a high growth rate over extended periods of time". Prove this statement and give reasons for the under-performance of the Sri Lankan economy. (05 *marks*)

    (iv) "The development experiences of Sri Lanka since independence clearly illustrates that the economic policies have often been determined not by their efficacy, but by ideological considerations". Explain this statement with examples. (05 *marks*)

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