Time – 1 hour

Economics I – Part I

* **There are 20 questions in this part answer all questions.**
* **Every question carries 02 marks each and total of 40 marks.**

1. What is the most correct statement in economics about positive statements?
   i. Positive statements should be correct.
   ii. Positive statements cannot be tested with real information and data
   iii. Positive statements are scientific.
   iv. Positive statements are not used to explain the economic behavior and phenomenons.
   v. Economic polices are based on positive statements.

2. The main reason for increasing opportunity cost is,
   i. The speciality of factors of production
   ii. Scarcity of resources
   iii. Resources are homogeneous
   iv. different prices of factors
   v. infinite human wants.

3. What is the most correct statement about capital?
   i. Investment can be increased with new capital
   ii. Capital is a monetary concept.
   iii. Capital resources can be gained involuntary.
   iv. No relationship between capital and productivity.
   v. Stocks in change only includes in working capital

4. Economic efficiency can be gained,
   i. with productive efficiency
   ii. with full employment
   iii. with efficiency of resource allocation.
   iv. a point on a P.P.C. with maximum social preference.
   v. full employment with inefficient allocation of resources.

5. The characteristic of a traditional economic system is,
   i. Private ownership of properties
   ii. Free enterprises and choice
   iii. Non flexibility
   iv. Limited role of the government
   v. Government owns all factors of production except labour.

6. Social market economy can be defined as,
   i. A socialist market economy.
   ii. A capitalist market economy
   iii. A mixed economy
   iv. An economy with social equity
   v. A liberal market economy

7. Qd = 100 – 10P According to this equation when calculating elasticity with the formula of
   $Ed = \dfrac{P}{P-a}$, The value of "a" is,
   i. 100
   ii. 0.1
   iii. 10
   iv. 20
   v. 0.20

8. The most correct statement of a giffon good is,
   i. Negative income effect is very low.
   ii. Substitution effect is relatively high
   iii. Income effect is negative
   iv. less income is spent, from low income people
   v. price elasticity of demand is negative.

9. * Income of a person is increased from Rs. 10000/= to Rs. 12000/=
   * The demand for x good is increased from 80 to 120 units.
   * The demand for y good is decreased from 80 to 60 units.
   With reference to the above information's the most correct answer about x and y goods,

	x good	y good
i.	a luxury good	a normal good
ii.	a luxury good	an inferior good
iii.	a giffon good	a luxury good
iv.	a normal good	a luxury good
v.	an inferior good	a normal good

10. With relevant to the supply equation of QS = 4+2P, the supply curve is given below.
    What is the point elasticity of supply in points A and B.
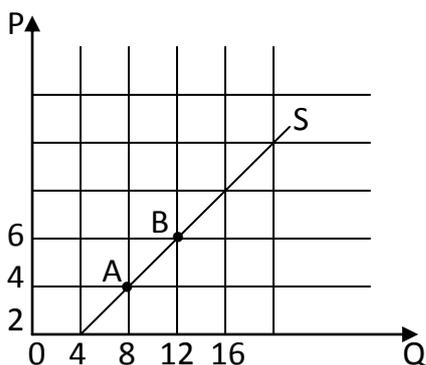
 | | elasticity of A | elasticity of B |
    |------|-----------------|-----------------|
    | i. | 0.5 | 0.67 |
    | ii. | 1.0 | 0.5 |
    | iii. | 0.2 | 1.0 |
    | iv. | 1.0 | 0.2 |
    | v. | 0.8 | 0.4 |

11. You are given two demand and supply equations in a competitive market.
Qd = 16 – 2P, Q_s = 4+2P Government has levied Rs. 2/- sales tax on consumers. Compute the consumers price and the produces price after tax.

	Consumers Price	Producers Price
i.	4	2
ii.	5	3
iii.	2	4
iv.	6	4
v.	2.5	4.5

12. Government has implemented a guaranteed floor price with a price support scheme. With reference to the following diagram, compute the change in consumers surplus and net social welfare effect.
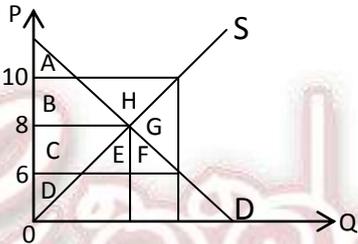

	Change in consumers supplement	Net social welfare effect
i.	+ (B+H)	- E
ii.	+ (A+B+C)	- H
iii.	+ (C+ E+F)	- G
iv.	+ (B+C)	- F
v.	+ (C+D)	- H

13. The reason for decreasing returns to scale in long run is,
    i. ability of using machinery
    ii. the cost which occurs only once
    iii. scarcity of resources
    iv. indivisibility of factors of production
    v. specialization through dignity of labour

14. The number of firms and the nature of goods in a perfect competition and Imperfect competition are given below. Select the most correct answer for each market structure.

	No. of firms / nature of good	No. of firms / Nature of good
i.	Large / Heterogeneous	Large / differentiated
ii.	Large / Homogeneous	Large / differentiated
iii.	Small / Homogeneous	Small / differentiated
iv.	One / Homogeneous	Large / Homogeneous
v.	Few / Heterogeneous	Large / Homogeneous

15. Consumption function C = 100 + 0.8 yd. When disposable income increases what will happen to the marginal propensity to consume and average propensity to consumer.

Expenditure
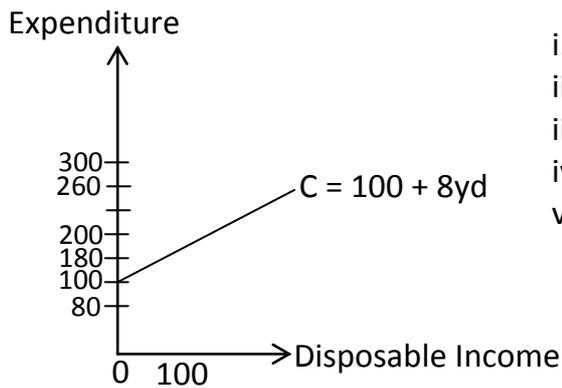
i. M.P.C. is constant and A.P.C. is gradually deceasing
ii. M.P.C. is increasing and A.P.C. is constant
iii. Both M.P.C. and A.P.C. are constant
iv. A.P.C. is constant and M.P.C. is increasing
v. A.P.C. is negative and M.P.C. is positive

16. You are given the following informations.
Consumption function: C = 1000 + 0.8 yd.
Marginal propensity to Tax : MPT = 0.2
Marginal Propensity to import : MPM 0.1

	Tax multiplier	Import multiplier
i.	-2	-3
ii.	-1.5	2.75
iii.	-1.25	-3.25
iv.	-1.74	-2.17
v.	-1.20	-2.30

17. The overall budget deficit as a percentage of Gross Domestic production in Sri Lanka, in the year 2008 was,
i. 7.7 %   ii. 7.0 %   iii. -7.2 %
iv. -7.5 %   v. 7.8 %

18. What is the contribution to tax income and non tax income in Sri Lankan government revenue in year 2008?
i. 80% and 20%   ii. 75% and 25%   iii. 89% and 11%
iv. 90% and 10%   v. 88% and 12%

19. Consumption function C = 150 + 0.6 yd. Autonomous tax : Ta = 50. Compute the autonomous consumption after autonomous tax.
i. 100   ii. 150   iii. 120
iv. 130   v. 50

20. The relative contribution of current and capital expenditure of total government expenditure in year 2008 is,
i. 14.2 and 8.0   ii. 16.2 and 5.1   iii. 17.1 and 6.8
iv. 12.2 and 9.2   v. 15.2 and 5.7

Grade 13 – Final Term Test   June 2010

13 වන ශ්‍රේණිය අවසාන වාර පරීක්ෂණය 2010 ජූනි

Time : 02 Hours

Economics I – Part II

Instructions : - Select 2 questions from each part and answer 4 questions only.

Part "A"

1)   i.   What are the reasons for every society to make choices? Explain the basic choices
         which every society has to face.   (04 Marks)

     ii. Assume a concave production possibility boundary with milk powder on vertical axis
         and cloths on horizontal axis.

         With reference to the above P.P.C. explain the following events in separate diagrams.

         a.   The foreign countries have suspended buying milk powder from the above
               country due to the trade hindrance.

         b.   Under the trade hindrance the economy will suspend the inputs and capital
               equipments.

         c.   Productivity gap of the above economy

         d.   The economy is facing a long term economic depression.

         e.   Ethnic and tribunal changes can be seen in the economy.

                                                              (01 Mark each = 05 units)

     iii.   The following production possibility curve illustrates an economy with full production
            and full employment. The production points of the curve are given below.

Medicine	Food
0	30
1	28
2	24
3	18
4	10
5	0

2) i. What are the Illustitional characteristics of an economic system ?   (03 Marks)

    ii. Explain the revolution of an economic system   (04 Marks)

    iii. Explain the major factors which determine the behavior of economic units in a
         market economy   (04 Marks)

    iv. How does an employer who maximizes profits take decisions on factor
        employment ?.   (04 Marks)

3) The following information's are given to you about demand and supply of oranges.

         Demand Equation Q_d = 24 -2P
         Supply Equation Q_s = 2P

    i. Calculate equilibrium price and quantity.   (02 Marks)

    ii. If government levis a tax of Rs. 2/= on consumers, compute the new equilibrium
           price and quantity.   (03 Marks)

    iii. Compute the consumer price and the producer's price after leving the tax.
                                                                                (03 Marks)
    iv. Explain the tax incidence of consumer and producer   (03 Marks)

    v. Explain the economic inefficiency and the social cost since the tax is levied
          on consumers.   (04 Marks)

4) The following equations are given to you.

         Demand Equation Q_d = 96 - 2P
         Supply Equation Q_s = 12 + 4P

    Government has decided to implement a minimum price with a guaranteed price polivy for
    producers and buy the excess supply.

    The minimum price is decided as Rs. 10/=

    a. Compute the changes in consumers surplus under the guaranteed price   (02 Marks)

    b. Compute the changes in producers surplus under the guaranteed price   (02 Marks)

c. Computer the total welfare effects   (02 Marks)

ii. Distinguish between theory of demand and law of demand   (03 Marks)

iii. The law of supply explains the positive relationship between the price and the quantity supply. Explain the reasons for the law of supply.   (03 Marks)

iv. To reduce the externalities government impose taxes and provide subsidies - Except These what are the other measures to reduce externalities ?   (03 Marks)

Part "B"

5) The following data of a macro economy are given to you. All the figures are in Rs. million.

The output of Agricultural Sector	8000
The output of Industrial Sector	2000
The output of services Sector	12,000
Value of inputs in agricultural sector	200
Value of inputs in industrial sector	10,000
Gross domestic fixed capital formation	4000
Inventories	2000
Government purchases	4600
Private consumption	10,000
Import of goods and services	3200
Export of goods and services	4000
Receipts of foreign factor income	800
Payments for foreign factor	900
Net fixed capital formation	3800
Net foreign transfers	2000

Using relevant data, compute

a. Gross Domestic production.
b. Gross National production.
c. Disposable National income
d. Current account balance of B.O.P.
e. National Savings.   (02 x 5 = 10 Marks)

ii. Explain the drawbacks of domestic production approach (03 Marks)

iii. " Gross Domestic production only includes the market economic activities" Explain
(02 Marks)

6) You are given the following information's.

Consumption	C = 40 + 0.6 yd
Investment	I = 150
Government Expenditure	G = 200
Exports	X = 70
Imports	M = 44 + 0. 28y
Transfer Payments	Tr = 40
Taxes	T = 0.2Y

Using the above data, Compute,

i. Macro economic equilibrium
ii. Trade balance in equilibrium
iii. Budget deficit or surplus
iv. Government investment multiplier.
v. If government reduces tax rate by 5% compute the macro economic equilibrium

(03 Marks each part 03x05 =15)

7) The following information's of public finance are given to you.
(All figures are in the billion)

Non tax	500
Tax revenue	2000
Transfer Payments	850
Interest Payments	900
Payments for goods and services	1000
Capital expenditure and net lending	250
Foreign Loans	150
Loans from CBSL	50
Loans from commercial banks	200
Loans from non banking sources	100

Using the relevant data, compute,

a. Current account balance   (02 Marks)
b. Overall balance   (02 Marks)
c. Primary account balance   (02 Marks)
d. Financing the overall balance   (02 Marks)
e. Inflationary impact of financing the budget   (03 Marks)

ii. Explain the following cannons of taxation

a. Equity   (02 Marks)
b. Neutrality   (02 Marks)

8)   i.   Distinguish between government budget and the vote on account.

       (04 Marks)

   ii.   What are the distinctive situations to present a vote on account ?

   iii.   Explain sensitivity coefficient of government tax income

   iv.   Explain the reasons for poor performances of government tax collection.

Time – 1 hour

Economics II – Part I

* **There are 20 questions in this part & all question are compulsory.**
* **Each multiple question has only one correct answer. Identify & Underline the correct answer.**

1. What is the maximum amount by which the banking system can increase "Loan creation; if the banking system holds Rs. 5000 as reserves and operates under the statutory ratio of 20%.

   i. Rs. 25000   ii. Rs. 5000   iii. Rs. 100000
   iv. Rs. 20000   v. Rs. 15000

2. One of the following is not a component of a financial system
   i. Financial markets
   ii. Financial instruments
   iii. Financial institution
   iv. Regulatory institution
   v. Real markets

3. The market in which short term financial transactions are not conducted is,
   i. Share market
   ii. Inter bank call money market
   iii. Market for treasury bills
   iv. Market for commercial papers
   v. Domestics market for foreign exchange

4. When the government requires to decrease the money supply, it will,
   i. Sell government securities
   ii. Increase the wage rate
   iii. Reduce the statutory Reserve ratio
   iv. Decrease Bank Discount rate
   v. Borrow from the international market

5. One of the following statements is incorrect with respect to inflation.
   i. Inflation cannot be eliminated but can be controlled
   ii. Inflation is the continuous increase in the general price level.
   iii. Headline inflation is used as a basic indicator of formulating policies

iv. The gradual decrease in the rate of increase in the price level is known as disinflation

v. Economic & price stability is one of the ultimate goals of the current monetary policy.

6. The rate which represents the lower limit of the interest rate corridor is,
   i. Reverse Repo rate
   ii. Repo rate
   iii. Inter bank call money market rate
   iv. Statutory Reserve ratio
   v. Bank Discount rate

7. The financial asset which has the least liquidity is,
   i. Demand deposits
   ii. Treasury bills
   iii. Money market accounts
   iv. Fixed deposits
   v. Savings deposits

8. One of the following does not recommend "protectionism"
   i. Protecting domestic infant industries
   ii. Reducing unemployment
   iii. Avoiding adverse balance of payment crisis
   iv. Attaining a self sufficient economic system
   v. Conducting dumping practices

9. Select the incorrect answer.
   i. Speculation is promoted under floating exchange rate regime.
   ii. Due to the over estimation of domestic currency value against a foreign currency, the competitiveness of exports will decrease under a fixed exchange rate regime.
   iii. Floating exchange rate regime acts as an automatic mechanism of balancing the Balance of payments.
   iv. Floating exchange rate regime requires the regular intervention by the monetary authority.
   v. Floating exchange rate regime was implemented in year 2001 by the CBSL in the Sri Lankan economy.

10. Given the price elasticity of demand for imports at -0.9 and the price elasticity of demand for exports – 0.6, then the depreciation in the value of rupee against foreign currency is likely to lead to
    i. a deterioration of the current account balance of the BOP
    ii. an improvement in the current account balance of the BOP
    iii. a decrease in export volume
    iv. an improvement in the terms of trade
    v. an increase in import volume

11. One of the major objectives of the world trade organization is to
    i. Promote domestic trade of the member countries
    ii. Provide financial assistance to the member countries
    iii. Managing a currency system conducive to international trade
    iv. Promoting world trade by reducing general level of protectionism.
    v. Promoting protectionism in international trade

12. The value of the Sri Lankan rupee is most likely to deprecate against a foreign currency if,
    i. Sri Lanka inflation rate exceeds those of other countries
    ii. The Sri Lanka government borrows more money from aboard.
    iii. New tariffs are introduced on imported products.
    iv. Sri Lankan economy undergoes an economic recession
    v. The Sri Lankan government receives more foreign grants.

13. The main objective of "Ranodra" proramme is to
    i. Promote investments of Sri Lanka in abroad
    ii. Attain financial stability of the country
    iii. Introduce a social security network
    iv. Develop micro, small and medium scales business
    v. Provide a strong infrastructure pase.

14. One of the following is not a composite index of development
    i. Physical Quality of Life Index (PQLI)
    ii. Human Poverty Index (HPI)
    iii. Per capita income adjusted to Purchasing Power Party (PPP)
    iv. Human Development Index (HDI)
    v. Index of good governance

15. What is the range of values that is used to classify countries that have a medium human development?
    i. 0.101 – 0.800   ii. 0.499 – 1.000   iii. 0.8 – 0.1000
    iv. 0.500 – 0.600   v. 0.500 – 0.799

16. What is the size of the current labour force in Sri Lanka ? (In million)
    i. 5   ii. 7   iii. 7.5
    iv. 8   v. 8.5

17. The answer which approximately expresses the government debt servicing ratio in recent times is,
    i. 11 – 13 %
    ii. 13 – 15 %
    iii. 15 – 17 %
    iv. 17 – 20 %
    v. 20 – 25 %

18. One of the following statements is incorrect.
    i. Sri Lanka is the country which implements the largest social security programme in the south Asian region.
    ii. Foreign exchange control is an agency function of the central bank of Sri Lanka
    iii. Introduction of the Repo & Reverse Repo markets expands open market operations
    iv. The reduction of the statuary reserve ratio may have an expansionary impact on money supply.
    v. There is a trend of increasing unemployment rates in Sri Lanka in the recent times.

19. The percentage shares of output of agricultural, industrial & service sectors in year 2008 were respectively.

	Agriculture	Industry	Services
i.	12.1	28.4	59.5
ii.	11	29	60
iii.	15.3	29.7	55
iv.	11.8	32	57.2
v.	13	17	70

20. The percentage share of employment of agricultural, industrial & service sectors in year 2008 were respectively.

	Agriculture	Industry	Services
i.	25.2	35	49.8
ii.	31.3	29.7	40
iii.	33.2	31.3	35.5
iv.	32.7	26.3	41
v.	34.1	40.1	25.8

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Time ඃ   Hours

Economics II – Part II

Instructions: - Answer four questions only selecting two questions from sub-section 'A' & two questions from sub-section 'B'

Part "A"

01.   Assume a competitive commercial banking system operates at a statutory ratio of 20٪ holds Rs. 2000 million of demand deposits and has created loans amounted to Rs. 1600 million. In addition to this, the general public of this economy in which the banking system operates, possesses coins and notes amounted to Rs. 800 million,

Using relevant data, answer the following questions.

(a)   Draw the balance sheet of the banking system assuming that it has only demand deposits, required reserve amount & loans.   (3 marks)

(b)   Compute the narrow money supply (M_1) of the economy.   (4 marks)

(c)   Assume that the general public withdraws Rs. 200 million from the banking system to increase their holdings of coins & notes. Construct the new balance sheet of the banking system.   (4 marks)

(d)   What will be the value of the narrow money supply (M_1) after all these adjustments?
                                                                                                                  (4 marks)

02. (a) Modern Sri Lankan monetary policy is known as a "monetary policy framework of inflation targeting". How do you explain this new trend using monetary policy tools, operating target, intermediate target & ultimate targets of the current monetary policy? (4 marks)

(b) How does the central bank of Sri Lanka introduce "Reserve money to the Sri Lankan economy? (3 marks)

(c) Identify the main causes that lead to have relatively high inflation recent years in the Sri Lankan economy. (4 marks)

(d) What government & the control the are the steps that the Sri Lankan CBSL have taken to impacts inflation? (4 marks)

	India	China
Cloth (m)	4	6
Rice (kg)	2	5

03. You are given the following information pertaining to the production of two products by two countries.

Output per labour hour

(a) Which country holds the absolute advantage in producing cloth & which country holds the absolute advantage in producing rice? (2 marks)

(b) Assume the both countries possess 2400 labour hours each & they have been equally shared between the two industries. Compute the world output before specialization (3 marks)

(c) Compute the opportunity cost of production of each product by each country. (3 marks)

(b) What is your conclusion base on the comparative advantage theory? (3 marks)

(e) For rice, what will be the possible range of terms of trade in which both countries may be engaged with an international trade? (4 marks)

04. (a) State main characteristics of the newly introduced Colombo consumer price index.

(3 marks)

(b) State three trade agreements with which Sri Lankan economy has involved ?

(3 marks)

(c) Briefly explain the following topics.
   i. GSP +
   II. Global financial crisis
   iii. Monetary policy committee   (3 marks)

Part "B"

05. (a) Briefly explain the significance of economic growth as an economic goal

(3 marks)

(b) What are the costs of economic growth ?   (3 marks)

(c) "In recent years, Sri Lankan economy has continuously recorded remarkable economic growth rats" . Verify this statement.   (4 marks)

(d) Explain the structure of infrastructure facilities with examples that promote economic growth prospects of the economy.   (5 marks)

06. (a) Identify the structural changes that are observable in an economy as a result of an economy's economic growth mechanism.   (4 marks)

(b) Explain the "official poverty line" of Sri Lanka.   (3 marks)

(c) Name six programs that are implemented in the Sri Lankan economy to enhance infrastructure facilities   (3 marks)

(d) What are the main goals of the currently implemented development framework ?

(5 marks)

07. (a) Explain the main components of "good governance" ?   (4 marks)

(b) What are the main characteristics of the Sri Lankan unemployment ?   (3 marks)

(c) How do you define "Labour force"?   (3 marks)

(d) List 5 trends of the Sri Lankan population.   (5 marks)

08. (a) Define the following
   i. Index of economic freedom
   ii. Sri Lanka prosperity index (6 marks)

(b) Explain the significance of "Social capital". (6 marks)

(c) How do you explain "supply promotion policies"? (6 marks)