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Provincial Department of Education - NWP

21 E II

Third Term Test - Grade 13 - 2016

Index No : **Economics II** **Three Hours**

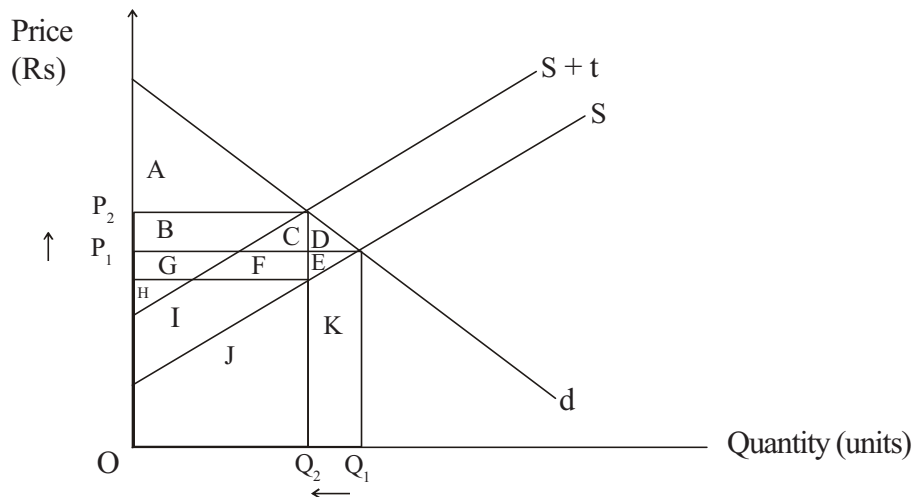
Important
♦ Select at least two questions from each section and answer for five questions.

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Section - A

- 01. i. " Economics is a science of choice." Do you agree? Explain. (4)
- ii. " Labour is not the entrepreneurship". Critically discuss this statement. (4)
- iii. Explain following concepts using examples.
 - a) Renewable resources and non - renewable resources.
 - b) Economic resources and non - economic resources. (4)
- iv. Explain given incidents using appropriate production possibilities curves.
 - a) Before and after of imposing economic embargo on all the imported inputs.
 - b) 25% and 50% growth in X and Y commodities respectively.
 - c) Emigration of the trained workers.
 - d) Fully utilization of resources. (4)
- v. Explain the way that fundamental economic questions are solved by the command and free market economic systems. (4)

- 02. i. What are the factors which are assumed as constant when the demand curve is derived for a normal good in a competitive market? (4)
- ii. Explain factors, cause for lower price elasticity of demand that is less than - 1, for a certain good available in the market ? (4)
- iii. Explain a situation of the market that consumer surplus becomes zero using an appropriate diagram. (4)
- iv. Below diagram illustrates the economic effects of imposing a specific tax on a certain good in the market.



State impacts created due to taxation in the economy using given letters.

- a) What would be the loss of consumer surplus due to taxation. (2)
 - b) What would be the loss of producer surplus due to taxation. (2)
 - c) State the area which denotes the total tax revenue of the government. (2)
 - d) Mention the area which illustrates the deadweight loss or excess burden of taxation. (2)
- 03.
- i. Explain the difference between "economic profit" and the "production surplus" (4)
 - ii. Explain the relationship between shapes of cost and production curves in the short run. (4)
 - iii. Point out four criteria used to distinguish alternative economic structures. (4)
 - iv. Explain reasons for the special shapes of demand curves of firm in Perfect Competition and Monopoly market structures. (4)
 - v. Explain the behaviour of Average Revenue (AR) and Marginal Revenue (MR) of a firm in a perfectly competitive market. (4)
- 04.
- i. What are the productive economic activities that are not included in National accounts? (2)
 - ii. Explain the difference between "Domestic Savings" and "National savings" in an economy (4)
 - iii. What is meant by Gross National production at constant price? What would be the importance of calculating that? Explain. (4)
 - iv. What is meant by "hidden economic activities" of an economy. (2)
 - v. Certain macro economic data for a hypothetical economy given below. (2)
- (All the values in millions)
- | | |
|--|------|
| Disposable income | 500 |
| Private savings | 350 |
| Exports | 100 |
| Gross Domestic fixed capital formation | 230 |
| Imports | 150 |
| Inventory changes | 20 |
| Government purchases | 200 |
| Net foreign factor income | - 40 |
| Secondary income of the BOP (Net) | 300 |
| Net indirect tax | 100 |
| Gross investment expenditure | 250 |

According to given information, calculate,

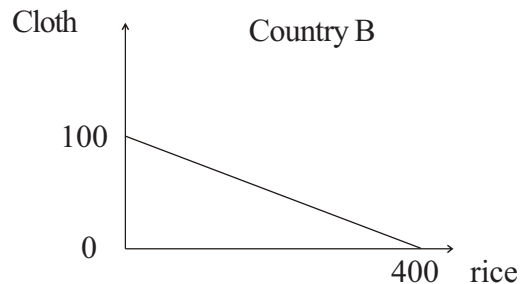
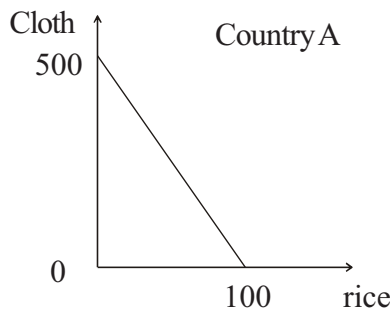
- a) Gross National production (2)
 - b) Gross Domestic production (2)
 - c) Disposable Gross National Production (2)
 - d) Current account balance in BOP (Net) (2)
05. i. Explain main factors to shift the aggregate demand curve to right in an open economy. (4)
- ii. $C = 100 + 0.6 Y_d$
 $I = 50$
Explain the equilibrium output level of the given economy to satisfy both equilibrium conditons, using an appropriate diagraeme. (4)
- iii. Calculate the multiplier effect of the first four situations in a simple econmy(that government is absent) due to increase in investment expenditure by Rs. 200 billion, when marginal propensity to cousume is 0.75 (4)
- iv. Hyothetical data of a certain closed economy given below. (Rs. in million)
 $C = 200 + 0.8 Y_d$
 $I = 100$
 $G = 200$
 $T = 20$
- a) Calculate the equilibrium output of this economy (2)
 - b) What would be the change in equilibrium income when investment is increased by Rs. 20 million? (2)
 - c) How much of the investment has to be increased to achieve the Rs. 3000 million of full employment level. (4)

Section B

06. i. Classify the financial system in Sri Lanka. (4)
- ii. Mention three assets and liabilities in Commercial Banks. (3)
- iii. What is meant by credit multiplier?
How to calculate the credit multiphier? (3)
- iv. In a certain economy the money supply is Rs. 2200 million and of this Rs. 200 million is currently held by the general public. The rest Rs. 2000 million is the bank deposits. The reserve ratio of the bank is 10%. So the banking system has Rs. 200 million worth of currency and Rs. 1800 million worth loans on its books.
- a) Prepare the balance sheet of this banking system. (2)
 - b) Prepare the new balance sheet after the adjustments when reserve ratio is altered as 25% (2)
 - c) What is the value of money supply (M_1) after all the adjustments made (3)
 - d) If the reserve requirement reduced upto 5%, calculate the new balance sheet and the money supply after completing money creation. (3)
07. i. What are the qualities in a good tax system? (2)
- ii. Why the role of the government becomes significant for a market economy? (3)

- iii. What is meant by the current balance of a government budget? (4)
Explain the importance of current balance.
- iv. What are the non - tax income sources of the government revenue. (3)
- v. explain the difference between "primary balance" and the "net financial deficit" in a budget. (4)
- vi. Distinguish the measures taken by the Sri Lankan government to finance the budget deficit as expansionary and non - expansionary. (4)

08. Below Production possibilities curves illustrate the maximum possible production levels of country A and B using same amount of inputs.



- a) Which country has the absolute advantage of producing cloth and rice. (2)
- b) What would be the country that has the comparative advantage of producing cloth and rice. (2)
- c) What would be internal rate of exchange between these two countries. (2)

- iii. Discuss the differences among "Trade balance" "Terms of Trade" and "Net exports" (4)
- iv. Give two reasons for the favourable and unfavourable Terms of Trade. (4)
- v. What are the factors for the fluctuations of "Exchange Rate."? (4)
- vi. Name the two approaches for the overestimation of exchange rate. (2)

- 09. i. Define the economic growth and mention the determinants of economic growth. (5)
- ii. a) Name main dimensions of the index which is used to measure the human development of an economy. (3)
- b) What are the main indicators in preparing Multi Dimensional Poverty Index (MDPI) (3)
- iii. Explain the concepts of "Relative Poverty" and "Absolute poverty" (4)
- iv. What are the significant changes in "demographical Transition" in Sri Lanka. (5)

- 10. i. What are the "sustainable Development Goals" made to achieve by 2030 at the summit of United Nations in 2015? (4)
- ii. Name the objectives mentioned in "Economic Policy Statement of the present government" that is expected to achieve by 2020? (4)
- iii. What is meant by the "Knowledge economy"? (2)
What are the Criteria based on that? (2)
- iv. What is meant by the "Well Governance" ? (4)
- v. Critically discuss of "Macro Participation Economic Growth" (4)