

# D.S.SENANAYAKE COLLEGE

## ECONOMICS – 1st PAPER - 2016

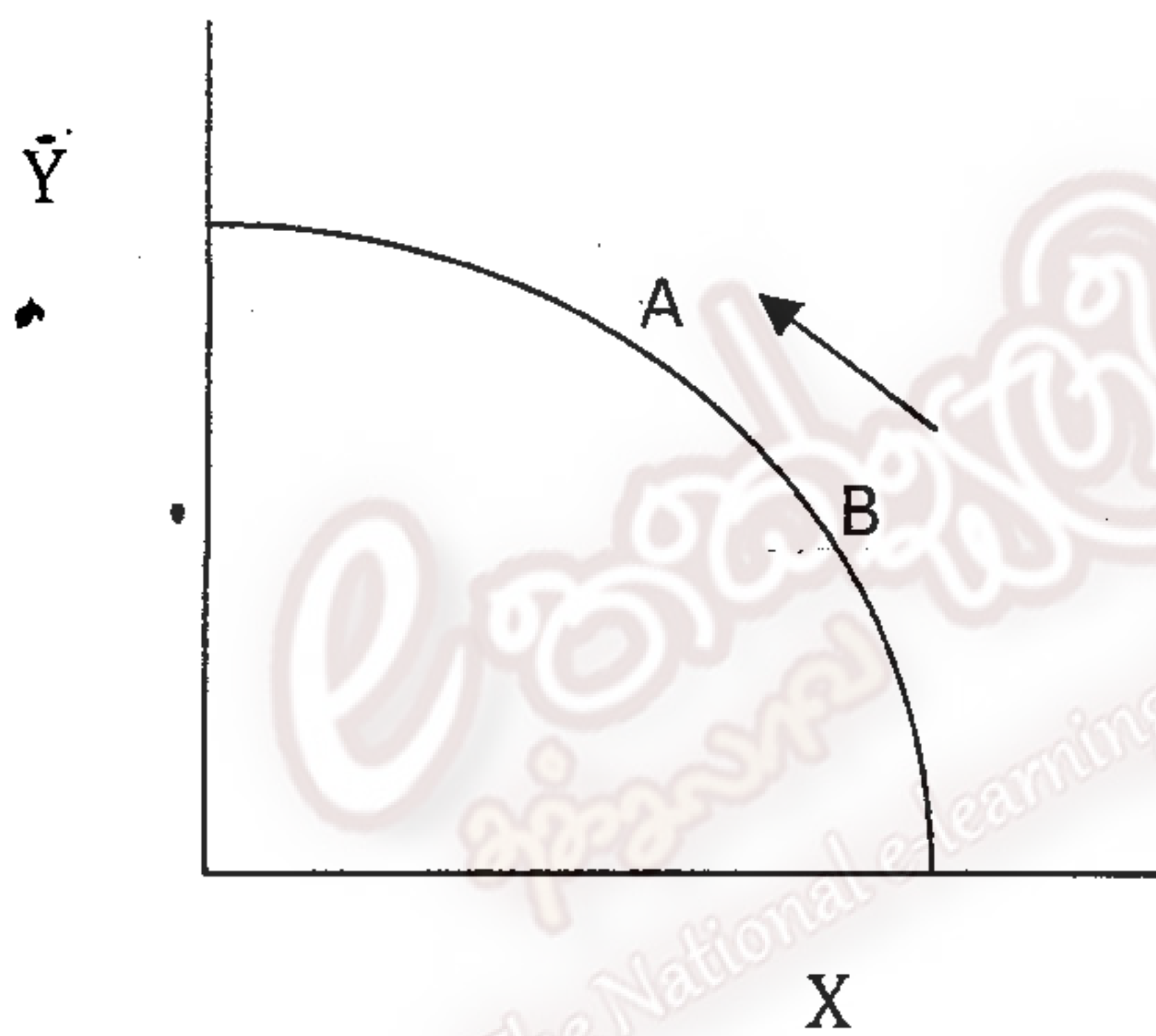
Grade 13

Time : 2 hours

1. Select the incorrect statement.

- Economic theories are based on positive economics.
- Economic policies are based on normative economics.
- Micro economics describes various decisions taken by various units in an economy.
- Macro economics examines the performance, structure and behavior of an economic system.
- Microeconomics depends on macro economics.

2.



When the economy moves from “B to A” and then “A to B”

- Opportunity cost of Y increases and Opportunity cost of X decreases
- Opportunity cost of Y decreases and Opportunity cost of X increases
- Opportunity cost of both X and Y increase
- Opportunity cost of both X & Y decrease
- Opportunity cost of Y increase and Opportunity cost of X is constant

3. What is not a determinant of potential output?

- Efficiency in resources use
- Resource endowment
- Factor productivity
- Human capital
- Natural capital

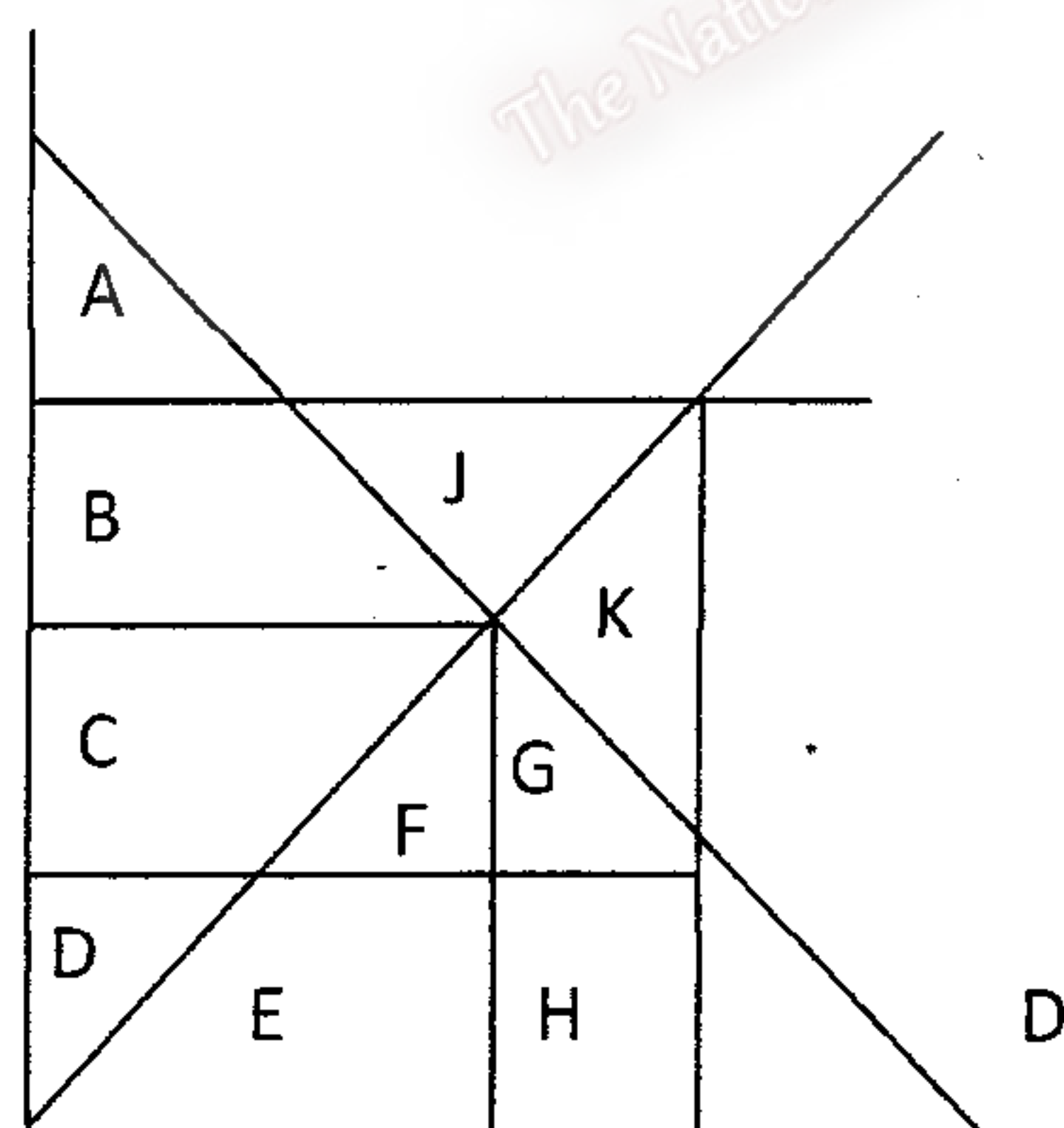
4. The main reason for the creation of a price in market economy is
  - a. such goods are necessary for the humans
  - b. price is required to earn a profit
  - c. the requirement to make a sacrifice to produce a good
  - d. the necessity to record transactions
  - e. under the barter system since goods were directly exchanged without a price the main reason for the creation of a price is due to the use of money in settlement of transactions
5. Command economies are more capable of achieving which of the following than market economies?
  - a. low level of inflation
  - b. production efficiency
  - c. minimum cost
  - d. highest consumer satisfaction
  - e. greater improvement in quality as profit is not the key motive
6. What is the incorrect statement regarding efficiency?
  - a. Production efficiency involves achieving more output with a fixed or less amount of resources.
  - b. Full employment means utilizing all the labour resources without unemployment.
  - c. It is not only enough to use all the resources to achieve economic efficiency.
  - d. Production efficiency ensures the economy is functioning on the PPC.
  - e. Production efficiency is represented by a point on the PPC whereas allocative efficiency is represented by any point on the PPC.
7. Social capital refers to
  - a. Capital goods that produces social goods
  - b. The collection of physical capital and natural capital
  - c. Capital stock that produces welfare goods
  - d. Collection of group of people towards common goals
  - e. Production aid used to manufacture output
8. Even in an inferior good law of demand holds due to
  - a. It is a giffen good
  - b. Both substitution effect and income effect are positive
  - c. Positive substitution effect is greater than negative income effect
  - d. Positive substitution effect is smaller than negative income effect
  - e. Positive substitution effect and zero income effect



9. Greater price stability can be evidenced in the face of changes in demand with respect of goods which
- have inelastic demand
  - have low income elasticity
  - have positive relation between demand and price
  - have many product substitutes
  - have high cross elasticity of demand
10. A good which has the characteristic of being overproduced and if the government needs to intervene and protect the producer what is the most suitable course of protection
- impose a maximum price
  - impose a quota on the production
  - impose a tax to contain the supply
  - grant a subsidy
  - encourage competition in the industry
11. As a result of research undertaken productivity of a certain good rises at a higher speed than the cost of such reasearch. What would be the impact on demand, price and supply?

	Demand	price	supply
a.	expand	increase	increase
b.	fixed	decrease	increase
c.	contract	decrease	increase
d.	Fixed	increase	increase
e.	contract	decrease	increase

12.



Under a deficiency payment system with a minimum price the change in consumer surplus is

- ABCFG
- BJCD
- CFG
- KGF
- BJK

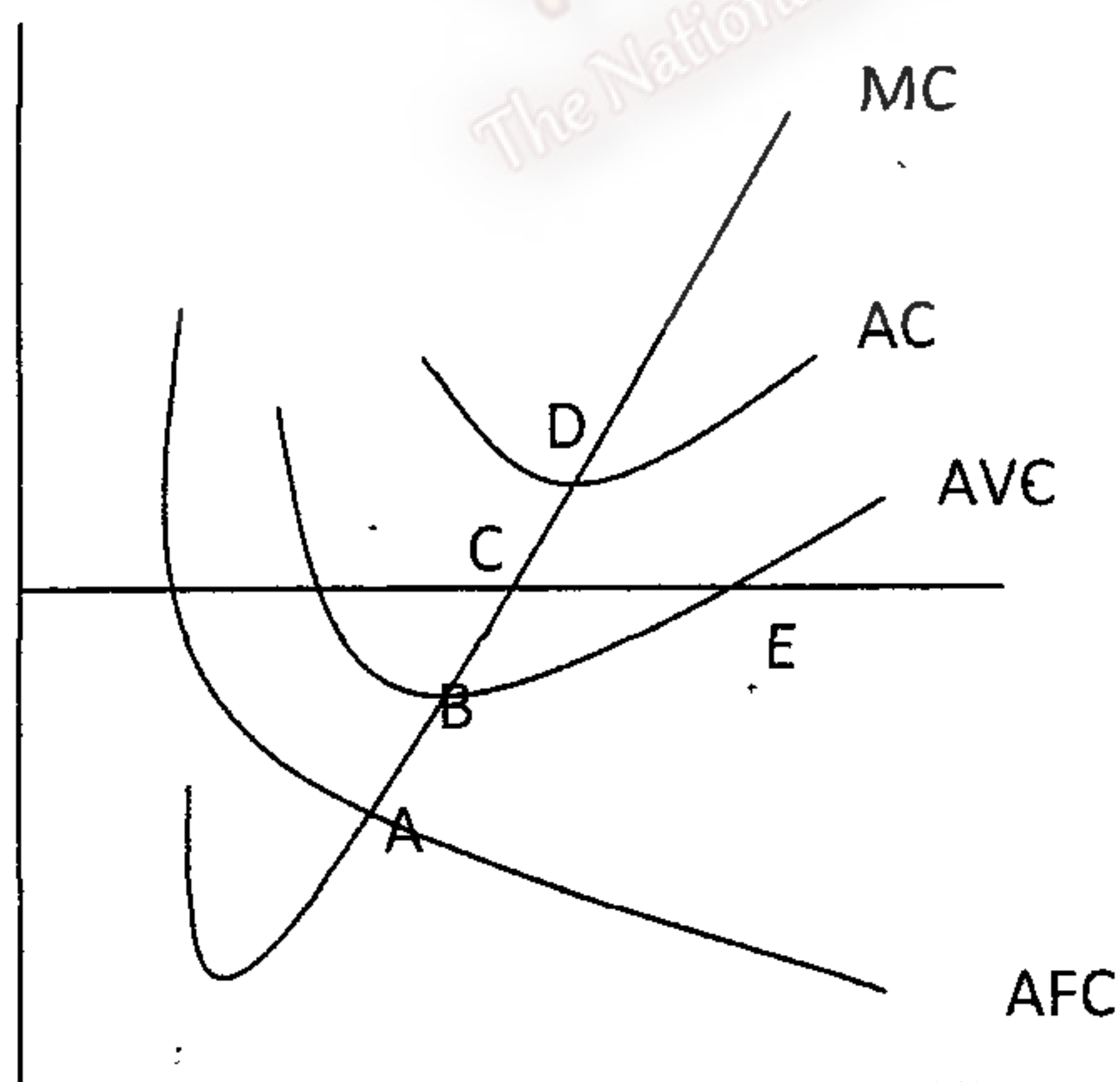
13. A producer has to face more competition. Then,
- XED is positive and low.
  - If XED is positive and high.
  - If XED is negative and low
  - If XED is negative and high.
  - If XED is zero.
14.  $Q_d = 700 - 5p$   $Q_s = -100 + 5p$   
 If the maximum price is 50 How much of stocks should be needed to fill the shortage?
- 250
  - 300
  - 325
  - 400
  - 200

Following figures have been provided. PED relates to the equilibrium price.

Good	PED	YED
A	0.2	-0.2
B	Unitary	0.8
C	Zero	0
D	1.5	1.2
E	2.0	2.0
F	perfectly elastic	0

Answer up to question number 15, 16 by using the above information.

15. When a tax is imposed which seller of the good could shift the highest burden to the consumer?
- A
  - B
  - C
  - F
  - E
16. Supplier of which good gains most due to the imposition of a subsidy?
- A
  - B
  - C
  - E
  - F
17. Short run supply curve of the perfectly competitive firm is



- Above point A along MC curve
- Above point B along MC curve
- Above point C along MC curve
- Above point B along AC curve
- Above point E along AVC curve



18. Which is incorrect statement?
- normal profit is a fixed cost.
  - economic profit = accounting profit – implicit cost
  - economic profit = turnover – direct cost – normal profits
  - normal profits are included in total cost.
  - economic profits are made when a firm earns in excess of normal profits.
19. A perfectly competitive firm earns economic profits
- When total cost is less than total revenue and price is greater than average cost
  - When total cost is less than total revenue and price is less than average cost
  - When total cost is greater than total revenue and price is less than average cost
  - When total cost is equal to total revenue and price is greater than average cost
  - When total cost is less than total revenue and price is equal to average cost
20. What can be considered as not possible under income method.
- Enables to get an idea of factor service earnings
  - Measures the functional distribution of income.
  - Measures the inequalities in income distribution
  - Give an idea of the total value of goods produced in a country
  - GDP under market prices can be derived from the income method
21. What is incorrect?
- In order to obtain GDP, net exports should be added to gross domestic expenditure
  - When net foreign current transfers are added to gross domestic expenditure disposable gross national income is derived
  - Gross domestic expenditure consists of consumption, investment and import expenditure
  - If there are no foreign transactions Gross domestic expenditure = GDP = GNP
  - Rent payments are included in the expenditure method.
22. In a simple economy savings are given by  $S = -200 + 0.4Y$  and  $I = 400$ . What is the consumption expenditure at the equilibrium?
- a. 1500      b. 800      c. 1100      d. 1000      e. 1080
23. In a simple economy if slope of the consumption function falls
- multiplier is unchanged and equilibrium national income falls
  - multiplier decreases and equilibrium national income falls
  - multiplier increases and equilibrium national income rises
  - multiplier falls and equilibrium national income rises
  - multiplier increases and equilibrium national income is fixed
24.  $Y = 6000$      $I = 2000$      $G = 2000$     Private savings = 1500     $C = 2500$      $X = 1200$   
 $M = 1700$   
 Government savings are
- a. 600      b. -500      c. 1200      d. +500      e. 0



25.  $C = 100 + 0.75Y_d$        $I = 100$        $T = 25$        $G = 80$   
 If equilibrium income is to be raised by 60 by how much should the tax income change?  
 a. Raised by 20      b. decreased by 20      c. decreased by 75  
 d. Decreased by 5      e. decreased by 10
26. In a closed economy if Transfer payments, government purchases, autonomous taxes each rise by 100, equilibrium national income would  
 a. fall by 100      b. rises by 100      c. rises by more than 100  
 d. falls by more than 100      e. constant
27. The most important component in terms of the amount in M4 money supply is?  
 a. currency held by the public  
 b. demand deposits of the public in commercial banks  
 c. time and savings deposits of the public in commercial banks  
 d. NRFC and RFC account balances of the public in commercial banks  
 e. currency held by commercial banks
28. Select which of the impacts likely to occur when central bank sells securities to the commercial banks under open market operations?
- |    | Credit expansion ability | High powered money | Interest rate |
|----|--------------------------|--------------------|---------------|
| a. | rises                    | rises              | rises         |
| b. | rises                    | rises              | falls         |
| c. | falls                    | increases          | rises         |
| d. | falls                    | falls              | falls         |
| e. | falls                    | falls              | rises         |
29. What causes a fall in money multiplier in an economy?  
 a. commercial banks maintain more excess reserves without lending  
 b. commercial banks buys securities from the central bank  
 c. commercial banks have less withdrawals ratio  
 d. central bank adopts standing lending facility  
 e. central bank lowers statutory reserve requirement
30. Standing rate corridor represents  
 a. the range over which commercial banks inter bank interest rate can be positioned  
 b. the range over which commercial banks lending interest rate to the public can vary  
 c. the range over which interest rates can change in the financial markets  
 d. the range over which central bank charges bank rate from commercial banks  
 e. the range over which statutory reserve ratio may be varied by the central bank

31. In which case there can be a drop in employment associated with inflation?
- an increase in the autonomous investment expenditure
  - a rise in raw material prices
  - an increase in credit creation
  - a fall in the interest rate
  - an increase in the velocity of circulation
32. The base year for the newly prepared national price index is
- 2015
  - 2014
  - 2013
  - 2012
  - 2011
33. Direct taxes are preferred to indirect taxes because
- the former is more easier to collect
  - the former is of more progressive nature
  - the former is charged on income
  - the former is more easier to understand
  - the former is able to ensure economic progress
34. When the government offsets an increase in government spending with an equal amount of tax collected what impact would be generated?
- there is a tendency for the income to fall.
  - there is a tendency for income to remain the same.
  - there is a tendency for income to increase by less than the amount of the government spending.
  - there is a tendency for income to increase by more than the amount of the government spending.
  - there is a tendency for income to increase by the same amount as the tax collected.
35. Automatic stabilizing fiscal policy refers to
- government manipulating it's fiscal policy to achieve economic stability
  - achievement of economic fairness by allowing tax policy to automatically charge higher taxes
  - automatic changes in tax revenue and government expenditure along with the changes that occur in the GDP level facilitating economic stability
  - automatic operation of the price mechanism to achieve economic stability
  - fiscal policy directed to automatically balance government spending with the government revenue



36. A budget deficit financed by domestic non bank sources may not cause which of the following effects?
- a fall in the interest rate
  - a rise in crowding out effect
  - a rise in the pressure upon price level
  - an increase in gross domestic product
  - a rise in debt servicing ratio in the future
37. As far as government revenue sources are concerned which is the right order in which the significance to the government revenue is indicated?
- income tax, VAT, Excise duty, import duty
  - Import duty, VAT, Income tax, Excise duty
  - VAT, income tax, Excise tax, import duty
  - VAT, Excise tax, income tax, import duty
  - Income tax, Import duty, VAT, Excise tax
38. The reason for resources allocation inefficiency with regard to merit goods is
- too many goods are produced and the price is high
  - too many goods are produced and the price is low
  - too few goods are produced and the price is high
  - too few goods are produced and the price is low
  - too few goods are produced and price is zero
39. Cost of producing the following goods in terms of resources consumption has been given below in relation to a unit of output.
- |        | Potatoes | Fish |
|--------|----------|------|
| UK     | 5        | 10   |
| France | 3        | 4    |
- Which statement is incorrect?
- France has absolute advantage to produce both goods
  - UK has the lowest opportunity cost to produce potatoes
  - the exchange rate of 1:1 between the two goods would not be desirable for both countries.
  - in the above case France should produce fish and UK should produce potatoes
  - there can't be any gains from international exchange
40. In a particular economy commodity terms of trade improved but revenue terms of trade deteriorated. What can be deduced from this?
- the county's import capacity has increased.
  - the price level of exports are high relative to import prices and less is exported.
  - exports are more competitive but supply of exports is not satisfactory.
  - imports have gone up in volume although exports prices have gone up more than the import prices.
  - imports have decreased but import prices have increased at a greater percentage while exports prices have gone up than the import prices.



**D.S.SENANAYAKE COLLEGE**  
**ECONOMICS – 11nd PAPER - 2016 July**  
**Grade 13** **Time : 3 hours**

Answer 5 questions by at least selecting 2 questions from each sections.

**SECTION- A**

1.
  - a. In the face of ever increasing population the choice available to the society will be greatly diminished and will continue to diminish. Do you agree with the above statement? Explain. ( 4 marks )
  - b. Briefly interpret the following.

- economic goods	- economic bads
- consumer goods	- intermediate goods ( 4 marks )
  - c. Identify the basic economic problems. ( 4 marks )
  - d. Mention the institutional features of economic systems and examine how they can be used to classify economic systems into capitalist and socialist. ( 4 marks )
  - e. What are the alternatives to the price mechanism to distribute scarce resources? ( 4 marks )
2.
  - a. Explain the output gap by using a production possibility curve. ( 4 marks )
  - b. Explain the following by using production possibility curves.

- misuse of resources
- a fall in the productivity of resources
- destruction to the cultivations due to the floods
- inflow of foreign funds for the development of human capital
  - c. When an economy uses the existing resources and technology fully and efficiently it can produce 200 units of good "X". when the output of "X" is reduced by one unit 2 units of "Y" can be increased. By using the above information construct the production possibility curve. How are you going to explain the type of opportunity cost involving the production possibility curve? ( 4 marks )
  - d. Division of labour and specialization is useful for enhancing productivity of factors and competitiveness of the business. Explain.
  - e. Capital is a stock concept. Explain.



3.

When the price of a good is Rs. 5 quantity supplied is 200 and excess demand is 300. When the price is Rs. 10 quantity supplied is 300 and excess supply is 300.

- a. based on the above information construct demand and supply equations and calculate equilibrium price and quantity. ( 2 marks )
- b. demand for the above good decreases by 200 units at each price and supply increases by 100 units at each price. Calculate the new equilibrium price and quantity. ( 2 marks )
- c. Calculate the change in the producer and consumer surplus under the two situations. ( 4 marks )
- d. Indicate the conditions required for the free market equilibrium to be the optimum one and mention the effect of that point on the consumers and producers. ( 3 marks )
- e. When there is imperfect information consumer sovereignty will be violated. Explain. ( 3 marks )
- f. Show how an indirect tax affect to distribute the tax burden when the demand is unitary elastic, elastic and inelastic. ( 3 marks )
- g. Explain how the change in a price affect producer revenue according to the elasticity of demand. ( 3 marks )

4.

- a. Distinguish between direct demand and derived demand. ( 4 marks )
- b. Explain transfer earnings and economic rent.
- c. Explain what is meant by total product, average product and marginal product and explain their behavior by suitable graphs. ( 5 marks )
- d. identify the market structure where  $AR = MR$  and explain the features of it. ( 3 marks )
- e. write down the short run production function and explain how it affects the shape of the short run cost curve. ( 4 marks )

5.

- a. Identify the withdrawals and injections relating to the circular flow of income and explain their behavior in order to ensure the equilibrium. ( 4 marks )
- b. What is meant by double counting? How that is prevented under the output approach? ( 4 marks )

- c. Following information is provided.

Disposable gross national product	480
Gross domestic expenditure	540
Household consumption	300
Secondary income account balance	60
Primary income account balance	-20
Government purchases	100
Stock changes	40



Calculate the following.

- Gross domestic product
  - Gross national product
  - Net exports
  - Gross domestic capital formation ( 4 marks )
- d. In a particular economy autonomous expenditure is 1200mln. Households maintain consumption expenditure of 200 mln even when income is zero. 20% of each increase in income is used for savings.
- construct the consumption and savings functions. ( 2 marks )
  - calculate the equilibrium income level ( 2 marks )
  - If the government intervenes into the economy and imposes 10% lump sum tax and maintain a transfer expenditure of 600mln calculate the new equilibrium income level. ( 4 marks )

#### SECTION - B

- 6.
- a. Market economic system is considered to be successful in achieving efficiency in resources allocation. Why is it considered to be so? And also it is said that market economies leads to market failure. Explain. ( 6 marks )
- b. Write brief notes on the following.
- global public goods
  - common resources
  - quasi public goods ( 6 marks )
- c. Explain what is meant by externalities. ( 4 marks )
- d. Explain by using graphs the inefficiency in resource allocation due to negative externalities and inefficiency in resources utilization due to positive externalities. ( 4 marks )
- 7.
- a. What are the cost and benefits of privatization? ( 4 marks )
- b. Indicate supply side polices of the fiscal policy. ( 2 marks )
- c. Examine the behavior of government revenue during the recent years. ( 3 marks )
- d. What are the objectives of charging taxes by the government? ( 4 marks )
- e. Interpret the tax base and how taxes are classified according to the tax base. ( 3 marks )
- f. Explain the distinction between supplementary estimates and interim budget ( 4 marks )

8.

- a. Distinguish between liquidity and liquidity preference. ( 3 marks )
- b. Explain the relationship between money supply and price level. ( 4 marks )
- c. In a particular economy following details are provided.

M1 money multiplier 4

Commercial banks' cash reserves 90

M1 1000

Time and savings deposits of the public in KBs 500

- Calculate money multiplier on M2 ( 1 marks )
- If SRR is 5% amount of excess reserves ( 2 marks )
- If the excess reserves are fully lent the balance sheet after the credit expansion. ( 1 mark )

- d. Indicate the relationship between the functions and objectives of the central bank. ( 3 marks )
- e. Examine the recent level of inflation in Sri Lanka and identify the reasons.

9.

- a. What are the main reasons for the international trade? ( 3 marks )
- b. Identify what is meant by comparative advantage and absolute advantage. ( 4 marks )
- c. Explain what is meant by protectionism? ( 2 marks )
- d. Explain whether you agree with the statement that if there is a favourable terms of trade then international trade is favourable. ( 3 marks )
- e. Mention non tariff methods of protection? ( 4 marks )
- f. Distinguish between nominal exchange rate and real exchange rate ( 4 marks )

10.

- a. What are the information included in the primary and secondary income account of the balance of payment? ( 2 marks )
- b. Examine whether devaluation of currency favourably affect the trade account. ( 4 marks )
- c. What are the evidences that can be presented to say that Sri Lankan population is ageing? ( 3 marks )
- d. Explain under employment and identify its reasons. ( 4 marks )
- e. Explain what is meant by price stability? What is meant by stable price? ( 2 marks )
- f. What are the cost of economic growth? ( 2 marks )
- g. Examine the trends in the poverty in Sri Lanka. ( 3 marks )