



**Provincial Department of Education  
Northern Province  
General Certificate of Education (Adv.Level) Examination  
Practice Examination 2019 - May  
Economics- Part 1**



**Grade 13 (2019)**

**Time: 2 Hours**

- ❖ **Answer all the questions**
- ❖ **In each of the question from 1 - 50, pick one of the alternatives (1), (2), (3), (4), (5) which you consider as correct or most appropriate.**
- ❖ **Mark a cross (X) on the number**
- ❖ **Corresponding to your choice in the answer sheet provided**

1. The Scarcity is
  1. the shortage of a few goods of a country
  2. the situation of Human wants does not fulfill by using the available resources of an economy
  3. there is not scarcity due to the economic growth
  4. the scarcity problem will not occur in a meric
  5. the choice problem of an economy will not arise due to the scarcity
2. Which of the following is a Social capital?
  1. Agricultural land
  2. Factories and building
  3. Telecommunication network
  4. Public road
  5. Surgery centers
3. Choice of an economics is arise due to
  1. the scarcity
  2. unlimited needs for scarcities of resources
  3. limited needs and limited resources
  4. unlimited wants and limited resource
  5. limited resource of all societies
4. When an economy produce a point on the production possibility curve
  1. Some resources is used in an economy
  2. That is a feature of a market economy
  3. The resources which have not allocative efficiency
  4. That curve which has an increasing opportunity cost
  5. That is indicated production efficiency

5. Identify the correct statements
1. Contraction of demand is indicated the leftward shift in demand curve
  2. Increase in demand elasticity is indicated the rightward shift in demand curve
  3. Due to the increase in real income, when price of a particular good increase the quantity of demand decrease
  4. Negative substitution effect related to inferior good is more than negative income effect
  5. When price of a particular good which has an elastic demand, increase producer's income will increase
6. The demand equation change from  $Q_d = 600 - 10p$  to  $Q_d = 700 - 10p$  which of the following is a reason or this
1. Increase in price of substitute goods
  2. Price of a particular goods increases as double
  3. Consumer's taste change
  4. House hold's income decrease
  5. Decrease in price of a substitute goods
7. The demand and supply equation of a particular good are given below
- $$QD = 200 - 5p \qquad QS = -100 + 5P$$
- If the government purchases excess supply at price Rs 35.00, what is the value of change in purchasing expenditure?
1. Change by Rs 1500.00
  2. Decrease by Rs 1125.00
  3. Increase by Rs 1125.00
  4. Increase by Rs 2625.00
  5. Decrease by Rs 1500.00
8. In which of the following situation, equilibrium price of a competitive market decline
1. Price of production resources increases, when there are elastic demand situation
  2. Input prices decrease, when there are in elastic situation
  3. Unit tax imposes, when there are perfectly in elastic demand situation
  4. Unit tax imposes, when there are perfectly elastic supply situation
  5. Production subsidy provides when there are perfectly elastic demands
9. The government imposes a minimum control price for benefit of the producer which is sold at a competitive market. Consider that the government purchase excess production. What is the effect of producer surplus and consumer surplus due to the control price?

Producer Surplus	Consumer Surplus
1. Decrease	Decrease
2. Decrease	Increase
3. Constant	Increase
4. Increase	Increase
5. Increase	Decrease

10. The demand and supply equation of a particular good which is sold at a market are given below

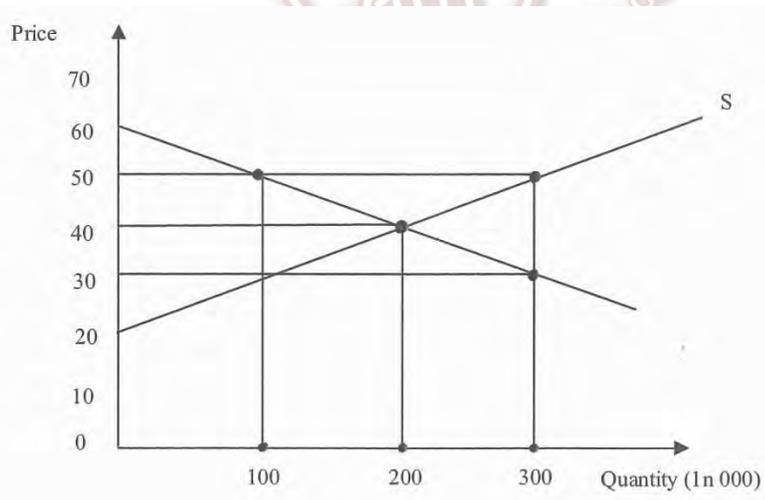
$$Q_d = 6000 - 100p$$

$$Q_s = -2000 + 100p$$

Consider that the Government impose a control price an Rs 30.00 which of the following is correct

Import Expenditure	Total Cons
1. Rs 60,000	Rs 80,000
2. Rs 30,000	Rs 60,000
3. Rs 60,000	Rs 90,000
4. Rs 60,000	Rs 30,000
5. Rs 90,000	Rs 60,000

11. The following diagram shows that the demand and supply curves of a market where sold a cloth



If the government decides to provide import quota an Rs 200 thousand.

What is the value of equilibrium price and equilibrium quantity for cloth?

1. Equilibrium price Rs 50, Quantity 300 units
2. Equilibrium price Rs 40, Quantity 200 units
3. Equilibrium price Rs 30, Quantity 200 units
4. Equilibrium price Rs 30, Quantity 100 units
5. Equilibrium price Rs 30, Quantity 300 units

12. Although price of a particular good increase, producer income has declined for that commodity so that good which has?
1. an unitary elasticity of demand
  2. perfectly elasticity of demand
  3. perfectly in elastic demand
  4. price elasticity of demand
  5. supply elasticity of demand
13. A firm sells 10 million Kandos at Rs 10, Price elasticity of demand is -2.5 if that firm decrease the price by 20%, income of that firm
1. Increase by 50MRS
  2. Decrease by 20 MRS
  3. Increase by 30 MRS
  4. Decrease by 40 MRS
  5. Increase by 20 MRS

14. The demand equation of a particular good is  $Q_d = 300 - 10p$  consider that the good which has constant supply 150 units in all prices.  
The government set minimum control price as Rs 20.00  
Which of the following combination is correct?

Excess Supply	Change in consumer surplus	Change in producer surplus
1. 625 Units	Rs. 625	Rs. 750
2. 50 Units	Rs. 625	Rs. 750
3. 50 Units	Rs. 750	Rs. 625
4. 100 Units	Rs. 1125	Rs. 2250
5. 150 Units	Rs. 750	Rs. 1125

15. When the Average product (AP) of a firm reach maximum point in short run
1. Marginal product decline
  2. Marginal cost decline
  3. Average cost increase
  4. Total production will reach maximum point
  5. Marginal cost intersect the minimum point of average variable cost
16. Profit maximization output level of a perfectly competitive firm is determined
1. When increasing marginal cost is equal to marginal revenue
  2. When marginal benefit is equal to marginal cost (MB=MC)
  3. When marginal revenue (MR) is equal to marginal cost
  4. When total revenue is equal to total cost (TR=TC)
  5. When law of diminish is extreme

17. Consider that the profit maximization output level of a perfectly competitive firm is 2000 unit and market equilibrium price is Rs 50. The firm earn economic profit an Rs 20 000 at this output level AVC at equilibrium output level is 30 Rs, so producer surplus is
1. Rs 100 000
  2. Rs 80 000
  3. Rs 60 000
  4. Rs 40 000
  5. Rs 30 000
18. When the output level which is equal to tangent point of total revenue and total cost of perfectly competitive firm
1. Firm will earn normal profit
  2. Firm will earn profit
  3. Firm minimizes loss
  4. Profit maximization of firm will held
  5. That is a breakeven point
19. Which of the following production activities are not included at production boundary in national accounting?
1. The own account production of housing services by owner occupiers
  2. Weaving cloth, dress making
  3. Activities such as decorating and cleaning of a house
  4. All goods and services sold at the market
  5. The processing of agricultural products, fish for preservation
20. The calculation of the value of gross national income according to the expenditure method of national accounting
1. Final consumption + Gross Domestic capital formation + Export + Net foreign primary income
  2. Final consumption + Gross investment – Net import + Net foreign primary income
  3. Private consumption + Gross investment - Net foreign primary income
  4. Household consumption + Government purchases + fixed capital formation + Net foreign primary income
  5. Final consumption + Gross Domestic capital formation + Change in stock + Net export + Net Secondary income

21. The following data are related to national accounting of an economy

Item	Amount (million Rupees)
Gross domestic product	22 000
Gross domestic capital formation	9 000
Govt purchases	5 000
Net exports	2 000

The Value of private consumption expenditure is

1. 5 000 Million
  2. 6 000 Million
  3. 4 000 Million
  4. 8 000 Million
  5. 12 000 Million
22. When government expenditure decline by 500 million in closed economy with government sector, the income will decline by 2500 million. What is the value of marginal propensity to saving?
1. 0.5
  2. 0.8
  3. 0.2
  4. 0.75
  5. 0.6
23. The tax multiplier is -1.5 in closed economy with government sector. When the equilibrium level of income increase by 500 million, in which amount of consumption and saving will change?

Consumption level	Saving level
1. 200 million increase	300 million increase
2. 500 million decrease	400 million increase
3. 300 million increase	200 million increase
4. 300 million decrease	200 million decrease
5. 350 million decrease	250 million decrease

24. If the slope of the consumption curve decline in simple economy, which effect will occur?
1. Value of multiplier increase and equilibrium level of income will increase
  2. Value of multiplier decreases and equilibrium level of income will decrease
  3. Value of multiplier increases and equilibrium level of income will decrease
  4. Value of multiplier decreases and equilibrium level of income will increase
  5. Value of multiplier decreases and equilibrium level of income will be constant
25. Consider that the government decrease the tax by 50 million and increase government purchasing expenditure by 50 million. Marginal propensity to consume is 0.60 so, the equilibrium level of income will

1. Increase by 200 million
2. Increase by 125 million
3. Increase by 250million
4. Increase by 50 million
5. Decrease by 200 million

26. Which of the following is considered as money in broad money supply (M2)?

1. Notes and coins and deposits
2. Cheques and saving deposits
3. Time and saving deposits
4. Cheques and fixed deposits
5. Notes and coins and demand deposits

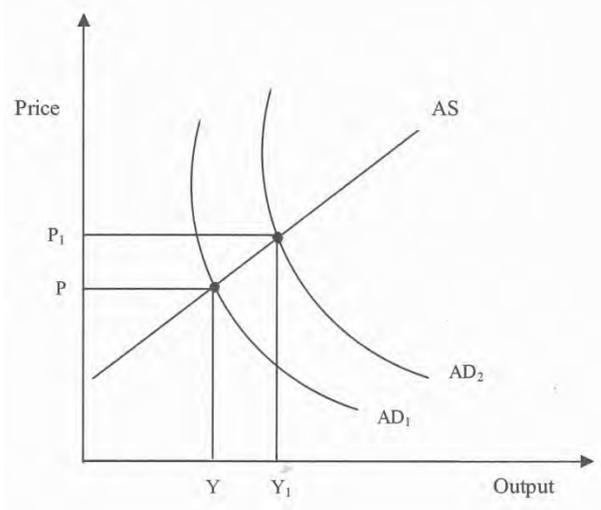
27. The following data are related to money supply of Sri Lanka

Item	Amount (MRS)
Money multiplier	5
M Money supply	2500
Currency held by Commercial bank	150
Commercial bank's deposits Held by central bank	200

Currency held by public is

1. 250 million
2. 100 million
3. 150 million
4. 300 million
5. 500 million

28. The following diagram shows the aggregate demand (AD) and aggregate supply (AS) of an economy



What are factor which causes to move from  $AD_1$  to  $AD_2$

1. Increasing interest rate
2. Increasing government expenditure
3. Increase in tax
4. Increase in net import
5. Decrease in money supply

29. Increase the preference of the people to keep money in the form of money

1. It will occur, when money supply decline
2. It will occur, when market price GDP increase
3. It will occur, when net domestic product decrease
4. It will occur, when price of commodity declines
5. It will occur, when price of financial papers increase

30. Assume the one of the commercial banks in the banking system has cash reserves of Rs. 20 000 billion loans of Rs 30 000 and deposits of Rs 50 000. If required reserve ratio is 20%, what is the value of new deposits of banking system?

1. Rs 100 000 Billion
2. Rs 50 000 Billion
3. Rs 20 000 Billion
4. Rs 80 000 Billion
5. Rs 10 000 Billion

31. When the government engages in reselling at money market

1. Shortage of liquidity of commercial bank will increase
2. Supply of liquidity will increase
3. Supply of liquidity will decrease
4. Demand for loan of people will decrease
5. Excess reserves of commercial bank will decrease

32. Which of the following factor is reason for market failure of an economy?

1. There are public resources
2. There are positive externalities
3. Resources allocate efficiently by the market
4. Only private benefit consider by market
5. The government provides public goods and services

33. The reason for the government failure is
1. In efficiency resource allocation
  2. Resource allocation towards public goods
  3. No mission in political policy
  4. Less administration cost
  5. Equal income distribution
34. The action is taken by the government to encourage positive externalities
1. Imposing of environment tax
  2. Deciding of a fine by the government
  3. Issuing of license
  4. Inducement of demand
  5. Recycling
35. Vertical equity of tax is
1. The need to treat equally for the people with similar economic capabilities
  2. The need to treat differently for the people with different economic capabilities
  3. The particular amount of tax burden on consumer
  4. Any possibility to shift the tax burden to someone else
  5. Decreasing marginal tax rate when the tax base increase
36. In market economy more units of demerit goods are produced because,
1. Social benefit is greater than private benefit
  2. Social cost is less than the private cost
  3. Private benefit is greater than social benefit
  4. There are less amount of external lost
  5. This goods which have external benefit
37. The good which have non excludability and non-rival consumption
1. Private good
  2. Merit good
  3. Pure Public good
  4. Property resources
  5. Public resources
38. The output quantities of two products such as X and Y that can be produced in America and Brazil using given amount of inputs are illustrated in the table below

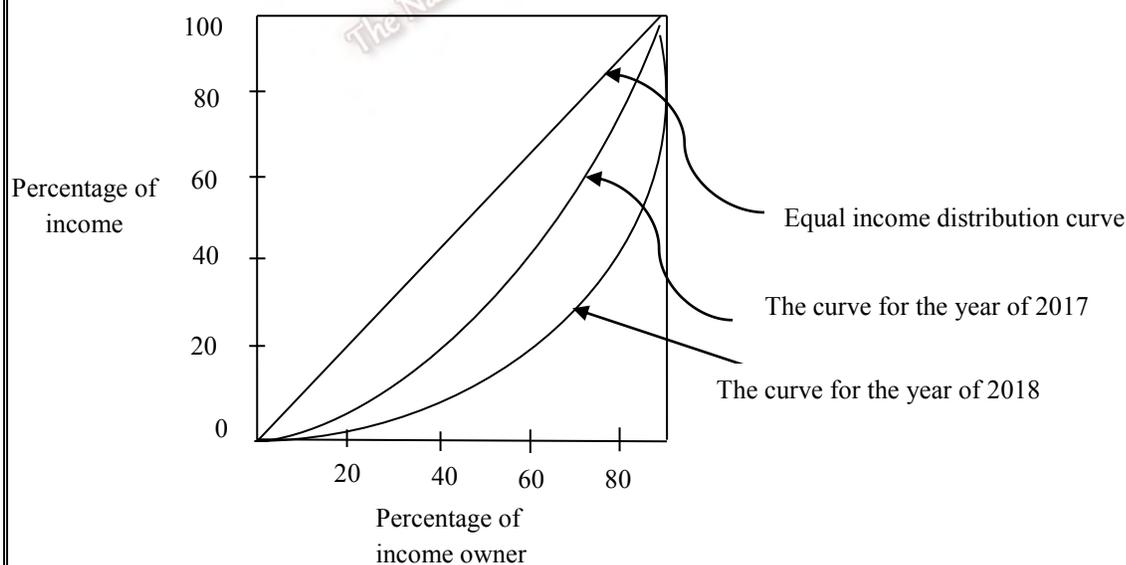
Goods	America	Brazil
X good	25	20
Y good	15	10

The correct statement according to the above information

1. America has the absolute advantage in both production such as X good and y good
  2. Brazil has the comparative advantage in Y good
  3. Brazil has the comparative advantage in X good
  4. America will produce and export X good
  5. Brazil will produce and export Y good
39. Which one of the following is a decision to solve long term deficit of balance of payment?
1. Increasing the value of foreign exchange rate
  2. Controlling other import goods excepting necessity import goods
  3. Implementing import agreement
  4. Controlling direct foreign investment
  5. Getting foreign debt facilities
40. If the inflation rate is high of a country which engage foreign trade than the inflation rate of Sri Lanka
1. Nominal effective exchange rate of a country is higher than the real effective exchange rate
  2. Real effective exchange rate is higher than the nominal effective exchange rate
  3. The value of nominal exchange rate is high
  4. The value of nominal effective exchange rate is higher than the real effective exchange rate
  5. The value of real effective exchange rate is high
41. The objective of Asian development bank (ADB) which is multilateral international financial organization
1. Improvement of cooperation among countries
  2. Improvement of living standard and reducing poverty among countries
  3. Improvement of foreign investment
  4. Sharing culture among the countries
  5. Development & Protect domestic war among the countries
42. The example for common market which facilitate movement of factors of production and goods and service among the member countries
1. Central American Common market (ACM)
  2. African free trade zone (AFTZ)
  3. Custom Union (CU)
  4. Free trade Area (FTA)
  5. Economic and monetary unions (EU)

43. Which of the following explains that the economic growth take place
1. Increasing production level and equal income distribution
  2. Production level should increase although production is found in production boundary
  3. Right ward shift in production possibility curve and shift in aggregate supply curve
  4. Right ward shift in production possibility curve and right ward shift in aggregate supply curve
  5. Increasing optimum production level of an economy
44. Which one of the following is a common characteristic of the countries which succeeded in growth process?
1. Allocation of resources based on govt control
  2. Macroeconomic objectives achieve by market forces
  3. Maintaining high level of saving and investment
  4. Improving the relationships among the employees
  5. Creating productivity of labour force
45. Identify the main components included to measure the human development
1. Mean value of years of schooling, Health
  2. Purchasing power parity per capita gross national income, education, health
  3. Quality of health facilities, Quality of school education and welfare sector
  4. Health, living standard and knowledge
  5. Higher income, higher health facilities and higher education

46. The following diagram shows the curve for a hypothetical country



Which effect occur in this country

1. Housing scheme provided related to poor people
2. Income is equalized
3. Poverty elimination programme is reduced in the year of 2018
4. Income is equalized in regional wise
5. Income of country is distributed among the people

47. Some of the demographic data for country is given below

Item	Number (in million)
Number of job seekers	20
Housewives	15
Full time students	20
Working population	200
Disabled persons	05

Based on the above information, what is the answer that shows the employment rate and labour force participation rate?

Employment rate	Labour force participation rate
1. 10%	70%
2. 15%	80%
3. 87.5%	80%
4. 60%	80%
5. 25%	65%

48. Disparity of income distribution measures by

1. Quintile dispersion ratio
2. Per capita income
3. Purchasing power per capita income
4. Real Gross domestic product process ratio
5. Real Gross national income process ratio

49. Poverty head count index shows

1. The amount of population belong to poverty as a percentage of total richest
2. The amount of population below the poverty line as a percentage of total population
3. The expenditure for food an non food item consumption as a percentage of population below the poverty line
4. The amount of population below the poverty line as a percentage of labour force
5. The difference between low income earners and high income earners

50. Happiness index introduce to measure development of all sectors of countries of the world

Which of the following combination included in these sectors?

1. Agriculture, Industry, Services and political
2. Social, Economic and service Sector
3. Social, Economic, Cultural political and Environment
4. Economic and Social human sector
5. Production service, Technological and Human sector



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Economics- Part 11



Grade 13 (2019)

Time: 3 Hours

**Instruction**

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

**Sub section 'A'**

**(Select minimum of two questions from this section)**

**Question 01**

- i. All "natural resources" which is used for production, called as non-economic resources. Do you agree this statement? Explain your answer (4 marks)
- ii. List characteristics of the economic systems which follow planned mechanism, price mechanism (4 marks)
- iii. Distinguish between Capital and Social capital (4 marks)
- iv. Which conditions should fulfilled to achieve productive efficiency? Explain (4 marks)
- v. Draw a production possibilities curve reflecting increasing opportunity costs for an economy producing two goods, computer software goods (horizontal axis) and Motor vehicle parts (vertical axis) (4 marks)
- vi. Explain the following by using PPC (1 marks)
  - a) Increasing unemployment due to the recession (1 marks)
  - b) Inefficiency uses of resources (1 marks)
  - c) Efficiency uses of resources (1 marks)

**Question 02**

- i. What are the factors change in increase in supply of a commodity which sold in competitive market? (4 marks)
- ii. The information about the good which is sold in market are given below
  - When price of good X increases by 5%, its quantity demanded increased by 3%
  - The quantity demanded of good X increase by 7.5% due to the increase in price of X

- a) Calculate the price elasticity of good X, and cross elasticity for X and Y goods (2 marks)
- b) Classify X good, X and Y goods (2 marks)

iii. Distinguish between consumer surplus and producer surplus (4 marks)

iv. The demand and supply curves for a good sold in a competitive market are given by the following equation

$$Q_d = 500 - 10p$$

$$Q_s = -300 + 10p$$

- a) Determine the equilibrium price and quantity for this market by drawing the demand and supply curve in graph paper (4 marks)
- b) If the government purchases excess supply at the control price of Rs 45, what is the amount of purchasing expenditure? (2 marks)
- c) If the government purchase excess supply, what is the amount of consumer surplus? (2 marks)

### Question 03

- i. Explain the legal price control policies which impose by the government (4 marks)
- ii. The following market demand and supply equations are related to a particular good
- $$Q_d = 400 - 15p$$
- $$Q_s = 200 - 5p$$
- a) Calculate the consumer expenditure at market equilibrium? (2 marks)
- b) If the government imposes a unit tax as Rs 4.00 on producers, what is the value of loss of consumer surplus? (4 marks)
- iii. When the government imposes a unit tax on the good which have inelasticity of demand and elastic supply, how does the consumer tax burden and producer tax burden? Explain your answer with diagram (5 marks)
- iv. What are the assumptions mentioned to define extension of demand (5 marks)

**Question 04**

- i. What are the relationship between short run average variable cost (AVC) and marginal cost (MC)? (5 marks)

- ii. The following information are related to perfectly competitive firm

Item	Amount (million Rupees)
Total revenue	45 000
Producer Surplus	23 000
Average cost (AC)	40
Marginal Cost (MC)	45

- a) What is the value of Average variable cost? (2 marks)
- b) What is the value of Average fixed cost? (2 marks)
- c) What is the level of output of firm? (1 marks)
- iii. Explain the term of economies of scale? How do the economies of scale arise? (5 marks)
- iv. What is meant by indirect cost? What are the items are included in this cost? (5 marks)

**Question 05**

- i. Explain the important characteristics of boom and recession points of business cycle (4 marks)
- ii. Explain the multiple counting problems in national accounting with example (5 marks)
- iii. Assume you have been given the following data for a hypothetical economy

Item	Value (Rs. Millions)
House hold consumption	1000
Gross Domestic capital formation	800
Government purchases	400
Services provided to households with non profits	200
Gross Domestic product	3200
Net foreign primary income	750
Secondary income received	2500
Secondary income payments	1300

According to the above data calculate the following

- a) Net export of goods and non-factor services (2 marks)
- b) Value of National saving (1 marks)
- c) Disposable Gross national income (2 marks)

- iv. You are given the following information about a hypothetical economy
- Autonomous consumption (C) 400 million Rupees
  - When income increases 1000 million Rupees, saving increases by 200 million Rupees
  - Private investment is 200 million
- a) Give consumption, saving equations? (4 marks)
- b) If the government spent 200 million, What is the value of change in equilibrium level of income? (2 marks)

**Sub section – ‘B’**

**(Select minimum of two questions from this section)**

**Question 06**

- i. Which effects occur on Demand for money by the following factors?
- a) Real income (2 Marks)
- b) General Price level (2 Marks)
- ii. What is meant by monetary target? Which is the aim of monetary policy frame work for central bank? (4 Marks)
- iii. The following is a balance sheet for one of the banks in a Commercial banking system in a country.

Liabilities	Value (MRS)	Assets	Value
Deposits	7 000	Reserves	2 000
		Securities	1 000
		Loans	4 000
Total	7 000	Total	7 000

Bank maintains excess reserves as 600 million Rupees and there are found 7800 million rupees as money supply of a country

- a) What is the required reserve ratio? (2 Marks)
- b) If the bank provides loan excess reserves, what is the amount of new deposits of banking system? (2 Marks)
- c) If people deposit Rs 500 million, how will the money supply be found? (2 Marks)
- iv. Name the primary reserves and earning assets of commercial bank's balance sheet?(4 Marks)
- v. Gross Domestic product of a hypnotically economy increase from 10 000 MRS to 10 500 MRS. Real product of country increase by 2%, so what is the chance in value of general price level (2 Marks)

**Question 07**

- i. Explain the characteristics of the following
- Merit good
  - Demerit good
  - Public good and public resources (4 Marks)
- ii. When producing goods or service external benefits will occur why market output is less than the social output? (4 Marks)
- Explain the appropriate diagram
- iii. What are the functions of government to eliminate market inefficiency? (4 Marks)
- iv. Explain the legal tax compliance and economic tax compliance with examples. (4 Marks)
- v. The following table is related to budget of an economy

Item	Amount (million)
1. Tax revenue	1600
2. Expenditure on goods and services	2200
3. Capital expenditure	1000
4. Non tax revenue	500
5. Current transfers	800
6. Current account balance	-1200
7. Donation	500
8. Net lending	200

Calculate the following

- What is the value of Interest payment? (2 Marks)
- What is the value of overall balance? (2 Marks)

**Question 08**

- i. What are the assumptions based to comparative advantages theory. (4 Marks)
- ii. The kelani tyre which is produced in domestic country price of a tyre is Rs 8000. This good which have Rs 2000 value of import inputs
- Consider that Imported tyre from Japan is sold in domestic market
- When impose 10% of import tax on import good, what is the value of nominal rate of protection? (NRP) (1 Marks)
  - When import tax is not change, what is the value of effective rate of protection? (2 Marks)

- c) When import tax on imported goods is not change, the tax is imposing 5% of tax on imported inputs. So what is the value of effective rate of protection? (2 Marks)
- iii. What are the objectives of world trade organization? (3 Marks)
- iv. List the actions for deficit financing in short term and long term remedious actions of balance of payment (4 Marks)
- v. What are the factors which cause demand for Dollars to Sri Lankans in foreign exchange market? (4 Marks)

#### Question 09

- i. Distinguish between Economic growth and Sustainable development. (4 Marks)
- ii. Explain the difference between absolute poverty and relative poverty (4 Marks)
- iii. What are the important of economic growth? explain. (4 Marks)
- iv. What are the other qualitative changes occurred with economic growth through the process of economic development? (4 Marks)
- v. How does the World Bank classify countries according to their per capital income levels? (4 Marks)

#### Question 10

- i. What are the Criteria's used to prepare the index of knowledge economy? (5 Marks)
- ii. What are the programme introduced to engage regional development in northern and uva province? (5 Marks)
- iii. Explain the economic and social important of infrastructure facilities? (5 Marks)
- iv. What are the actions proposed to eliminate regional in equality in Sri Lanka? (5 Marks)