

## G.C.E.(A/L) Examination 2017

## De Mazenod College- Kandana

2<sup>nd</sup> Term Test - Grade 12

Economics I

Duration: 1 hour

- Answer all questions. Write the correct number of the answer in the blank provided

(1) The special task of an economy is

1. Maintaining the price and economic stability
2. Maintaining the stability of the financial system
3. Maximizing the output by a given amount of inputs
4. Creating goods and services to fulfill the needs and wants of the people
5. Controlling the production process efficiently

(.....)

(2) Select the micro economic statement out of the following

1. The unemployment rate of Sri Lanka in 2014 is 4.3
2. The real gross domestic product of Sri Lanka in 2014 increased by 704 percent
3. The general price levels of Sri Lanka in 2014 increased by 3.3 percent
4. The government sold a 50 kilogram fertilizer bag for Rs.350 in 2014
5. The narrow money supply of Sri Lanka expanded by 26.3 percent at the end of 2014

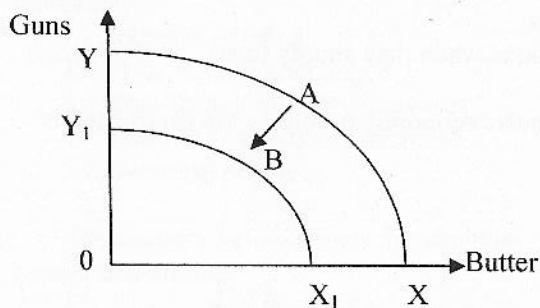
(.....)

(3) On the production possibility curve of a certain country

1. The opportunity cost is increasing
2. Every point shows economic efficiency
3. The production technology is different
4. Shows the consumption combinations of that economy
5. The resource content remains constant

(.....)

(4) The production possibilities curve related to a certain economy is given as follows



which of following would be the reasons for moving the production point from A to B?

1. Decrease of the aggregate demand of the economy
2. Decreasing the production due to employee problems
3. Economy has faced a decline
4. Economy has faced a recession
5. Destruction of capital resources due to non reformation

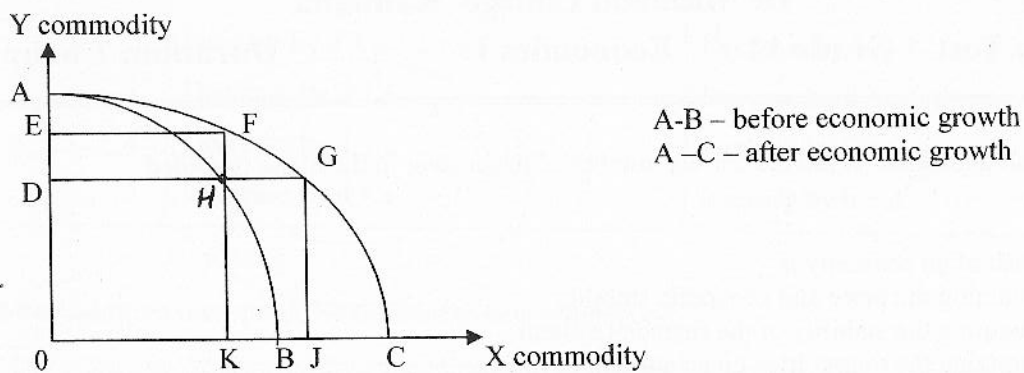
(.....)

(5) As the business firms increase the use of capital resources

1. Labour productivity decreases even though the output increases
2. The output can be increased even though the labour productivity decrease
3. The unit cost will increase as the production cost increases even though the output increases
4. Both output and the labour productivity increases
5. The profit margin will be decreased as the expenses for capital reformation increases

(.....)

(6) The production possibility of a certain economy before and after economic growth process is given below



The X production amount that should be sacrificed to increase the Y production from D to E is

	Before economic growth	After economic growth
1.	KP	KJ
2.	KC	KB
3.	BC	KJ
4.	KB	KC
5.	KB	JC

(.....)

(7) The production of a market economy is distributed by

1. Commodity prices which are determined by the commodity market price signals
2. Factor prices which are determined by the factor market price signals
3. The purchasing power that is determined by commodity market and factor market price signals
4. The government intervention through taxes and transfers
5. The conditions forwarded by the international organizations when they supply loans

(.....)

(8) The economic system in which the decisions taken to solve the basic economic problems are centralized is

1. Mixed economic system
2. Market economic system
3. Planned or command based economic system
4. Traditional economic system
5. New traditional economic system

(.....)

(9) If the resource ownership of a certain economy belongs to the government and the decisions to use those resources belong the price mechanism, it is a

1. Mixed economy
2. Planned economy
3. Capitalistic economy
4. Socialist market economy
5. Social market economy

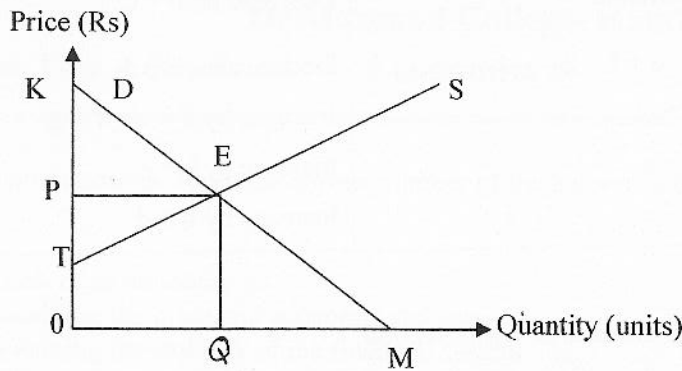
(.....)

(10) Which of the following is a criteria used to assess the task of an economic system?

1. Economic freedom
2. Good governance
3. Political well behaviour
4. Consumer sovereignty
5. Interim budget

(.....)

(11) The market demand and supply curves for a certain product is given below



The total amount that the consumers are willing to pay to purchase the equilibrium output is

1. OQEP    2. OTEQ    3. PEK    4. OKM    5. OKEQ    (.....)

(12) Which is identified as a normal good in economics?

1. The commodities in which the quantity demanded is decreased as the price increases
2. The substitute effect of price change takes a positive value
3. A commodity which is consumed by all the people of a society
4. A commodity in which the positive substitute effect of price change is more powerful than the negative income effect
5. A commodity in which the demand decreases when the income decreases    (.....)

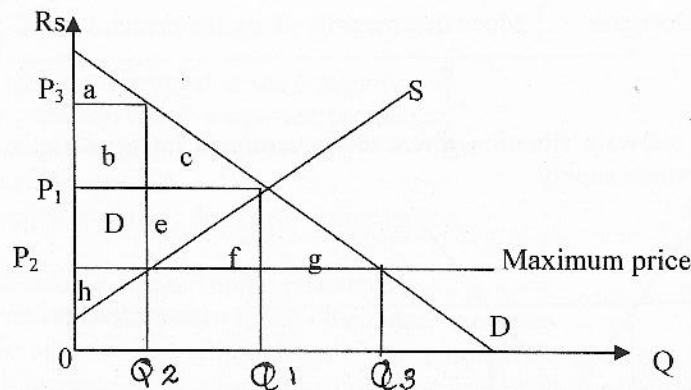
(13) The condition that should be fulfilled to have a zero consumer surplus is

1. The demand should be perfectly inelastic
2. The demand should be perfectly elastic
3. The supply should be perfectly inelastic
4. The supply should be perfectly elastic
5. The demand elasticity should take a greater value than the supply elasticity    (.....)

(14) Which of the following can be exactly taken place when the supply of a product decreases as the demand increases?

1. Increase of price
2. Price remain unchanged
3. Equilibrium quantity increases
4. Equilibrium quantity decrease
5. Decrease of price    (.....)

(15) The diagram below shows the situation of the market after the government imposes a maximum price for a certain commodity



If the government manages the excess demand created by the maximum price by the imports,

	Producer surplus	Consumer surplus
1.	Decrease by h amount	Decrease by b + c
2.	Increase by d + e + f + g	Decrease by b + d
3.	Decrease by d + e	Increase by d + e + f + g
4.	Decrease by d + e	Increase by b + c
5.	Decrease by d + e	Increase by b + d

(.....)

(16) Select the condition that should be fulfilled to be a giffen good

	Change in price	Substitution effect	Income effect	Income elasticity of demand	Final price effect
1.	Decrease	+	+	+	+
2.	Decrease	+	-	-	-
3.	Decrease	+	-	+	-
4.	Decrease	+	+	-	-
5.	Decrease	+	+	-	+

(.....)

(17) The quantity demanded of a certain commodity at a certain price is 100 units and the demand elasticity is -2.0. when the price become Rs.11 the quantity demanded will be 80. The price that the demand elasticity become -2.0 is

1. 1      2. 5      3. 10      4. 15      5. 20

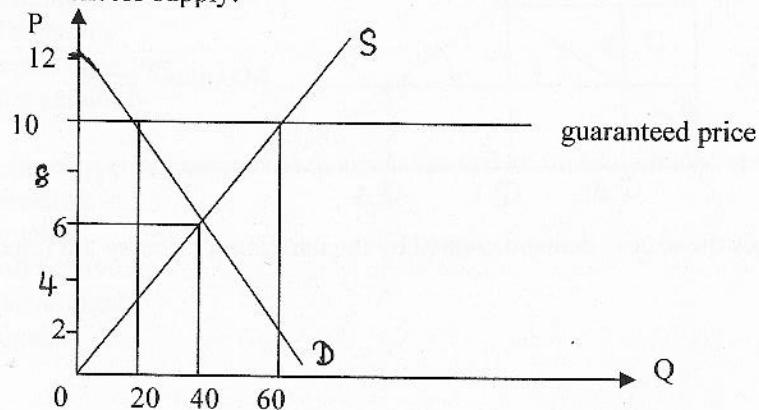
(.....)

(18) The cross elasticity of demand calculated between X and Y against the price change of X is -0.8. accordingly, with which statement you can agree?

	Price of 'X'	Demand curve of 'Y'
1.	Increase	Shift to right
2.	Decrease	Shift to right
3.	Decrease	Shift to left
4.	Increase	Move upwardly along the demand curve
5.	Decrease	Move downwardly along the demand curve

(.....)

(19) The following diagram shows a situation where the government imposes a guaranteed price and that the government purchases the excess supply.





**G.C.E.(A/L) Examination 2017**  
**Economics II**  
**De Mazenod College Kandana**  
**Grade 12 – 2<sup>nd</sup> Term Test – March 2016**

Duration : 2 hours

**PART - A**

Select two questions at least from each part and answer four questions altogether.

- (01) (i) (a) what are natural resources? (2 marks)  
 (b) can we consider the natural resources as non economic resources? Explain (3 marks)
- (ii) how does entrepreneurship differ from other factors of production? (4 marks)
- (iii) explain the relationship between capital, capital formation and savings (5 marks)
- (iv) explain (6 marks)  
 (a) Human capital  
 (b) Social capital  
 (c) Natural capital
- (02)(i) alternative economic systems can be identified based on different criteria used to categorize the economic systems. Prove this statement providing different criteria and the relevant economic systems (6 marks)
- (ii) (a) what are traditional economic systems? (2 marks)  
 (b) how does a traditional economic system solve the distribution problem? (2 marks)  
 (c) what is the importance of a new traditional economic system? (2 marks)
- (iii) what type of a task is provided by the price of a market economic system towards its Economic units (3 marks)
- (iv) explain (3 marks)  
 (a) Social market economies (3 marks)  
 (b) Consumer sovereignty (2 marks)
- (03)(i) in an economy with production efficiency, the need for industrial goods production reduced than earlier. How do you explain this situation with the use of a production possibility curve? (4 marks)
- (ii) following are the information related to guns production and butter production of a certain Economy in which the resources are fully utilized under maximum efficiency.

Guns (units)	Butter units sacrificed
0	-
10	5
20	10
30	20
40	40
50	80

- (a) Draw the production possibilities curve with the use of the above data (2 marks)
- (b) What can you tell about the opportunity cost, nature of resources and Production technology of this economy? (3 marks)
- (c) What is the problem faced by this economy if they produce 100 units of Butter and 30 units guns. (2 marks)
- (iii) the production possibility curve of a country shifts rightwards with the economic growth process. Accordingly, the problem of scarcity would not arise further. Do you agree? Explain (5 marks)
- (iv) name two macro economic issues that can be explained by the production possibilities Curves (2 marks)
- (v) what is meant by potential output? (2 marks)

### PART-B

- (04)(i) what are the facts depicted when it is said that a certain commodity is supplied to the market? (3 marks)
- (ii) why does a positive relationship exist between the price and the supply when other factors held constant? (2 marks)
- (iii) what are the determinants of supply elasticity of a certain commodity (4 marks)
- (iv) the quantity supplied of a certain product is 50 units when the price is Rs.10. the supply elasticity Is infinite when the price become Rs.5
- (a) Construct the supply function (2 marks)
- (b) Find the supply elasticity at Rs.10 (2 marks)
- (v) how do you represent the elastic supply and inelastic supply in the same diagram? Explain the practical importance of the two concepts for a production firm (4 marks)
- (vi) the inverse supply function of a certain commodity is given as follows  
 $P = -50 + 0.1 Q_s$   
 Draw the straight line supply curve (3 marks)

(05) The demand and supply conditions of a certain product sold in a competitive market are given below

$$Q_d = 225 - 5P$$

$$Q_s = -25 + 5P$$

- (i) Find the equilibrium price and the quantity of this product (2 marks)
- (ii) Calculate the consumer surplus and producer surplus at the equilibrium (4 marks)
- (iii) Calculate the demand elasticity and supply elasticity at the equilibrium (4 marks)
- (iv) The government imposed Rs.5 tax on the producers of this product.
- (a) What is the price received by the producers after tax? (3 marks)
- (b) What is the total tax revenue of the government (2 marks)
- (c) What is meant by lost economic welfare due to tax? Calculate it (5 marks)

(06) (i) what are production subsidies? Give two examples

(3 marks)

(ii) the supply schedule for a certain product is given as follows

P	10	20	30	40	50
Qs	30	80	130	180	230

If the government decides to grant a 50% production subsidy for this product, show the changes taken place in the supply schedule and the supply curve after subsidy. (4 marks)

(iii) what are the instances that the benefit of a production subsidy is only received by the Producer? Explain with the use of graphs (4 marks)

(iv) (a) what is meant by maximum price policy that the government imposes to the market ?

Show this in a diagram (2 marks)

(b) Why does the price mechanism fails to ration and distribute the shortage supply that arise due to maximum price policy? (3 marks)

(c) ' the situation of the consumers will be more worse than earlier when the government fails to manage the excess demand that arise due to this maximum policy. How do you explain this? (4 marks)