



De Mazenod College Kandana  
G.C.E. (A/L) Examination 2018  
Grade 13  
2<sup>nd</sup> Term test (March 2018)



6.04.2018

Economics I

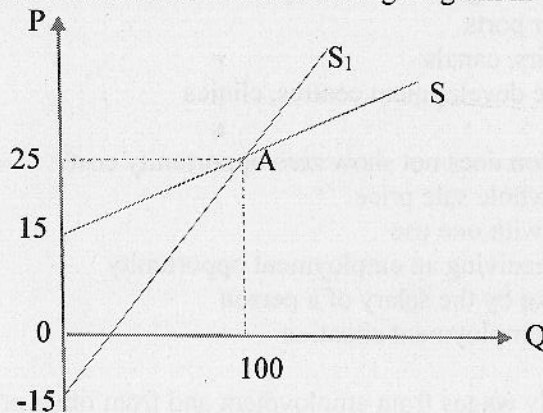
Duration : 2 hours

13 Pages

- 1) Economics mainly concentrates on explaining social behavior and incidents of people. Two statements that are comparatively used for this purpose are
1. Home economic science and managerial economic science statements
  2. Micro and macro economic statements
  3. Agricultural economic science and industrial economic science statements
  4. Positive and normative economic statements
  5. Micro economics and small scale economic statements (.....)
- 2) The problem of scarcity arise due to
1. Unlimited human wants and limited stock of resources
  2. Positive relationship between dependent variable and independent variable
  3. Existence of non economic goods in every economy
  4. Non spending of incomes optimally by the people
  5. Existence of unemployed resources in every society (.....)
- 3) Select the group which includes only non economic goods
1. Rivers, streams, lagoons and seas and reservoirs
  2. Rain, wind, water ways, sun light and humidity
  3. Roads, railways, ports, air ports
  4. Water falls, seas, reservoirs, canals
  5. Schools, hospitals, village development centres, clinics (.....)
- 4) Which of the following situation does not show zero opportunity cost?
1. Existing of stocks at the whole sale price
  2. Existing of commodities with one use
  3. An unemployed person receiving an employment opportunity
  4. Purchasing of a motor bike by the salary of a person
  5. Existing of a common unemployment situation (.....)
- 5) If the people who earn monthly wages from employment and from other property incomes spend it on the benefit decisions, it shows
1. How the market economy decides production
  2. That the consumption level of those people are very high
  3. The determination of choice of market between income and consumption
  4. The determination of consumption decision
  5. That a greater portion of the income of a market economy is spent on consumption (.....)
- 6) On the Production possibilities of an economy
1. Can increase the production of one commodity without reducing the production of the other
  2. An inefficient production exist
  3. All the resources available are utilized
  4. Technology is getting changed
  5. An increase of productivity is shown (.....)

- 7) The economic consequence of increasing specialization is
1. Increase of per unit cost
  2. Increase of consumer satisfaction
  3. Increase of factor productivity
  4. Increase of total cost
  5. Decrease of marginal production
- (.....)
- 8) A certain cultivator got a 100 mangoes and sold each at Rs.10/=. Price elasticity of mangoes is -2.0 and in the next season the price of a mango decreased by 20%. The revenue of the cultivator in the next season is
1. Increased by Rs.100
  2. Increased by Rs.520
  3. Decreased by Rs.180
  4. Increase by Rs.120
  5. Increase by Rs.480
- (.....)
- 9) The price of a certain commodity increased from Rs.50 to Rs.62.50 and due to that the demand of another commodity got reduced from 40 units to 20 units. The economic concept related to this product is
1. Elasticity is 2.0 and are substitutes
  2. Elasticity is 0.5 and are complements
  3. Elasticity is 2 and a complements
  4. Elasticity is 0.5 and are substitutes
  5. Elasticity is 2.5 and are complements
- (.....)

10) Supply elasticity at point A of S and S<sub>1</sub> in the following diagram in order are



- |                 |                 |
|-----------------|-----------------|
| 1. 2.5 and 0.62 | 4. 0.62 and 2.5 |
| 2. 0.8 and 1.5  | 5. 1.5 and 0.8  |
| 3. 1.0 and 0.8  |                 |

(.....)

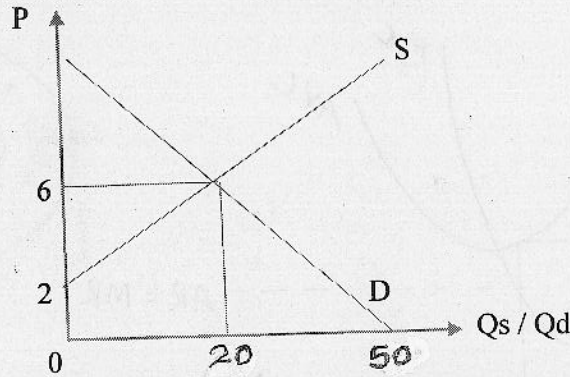
11) Consider the  $Q_d = 600 - 10P$  and  $Q_s = 100 + 10P$

If the government impose a minimum price of Rs.40 for this product, and the government doesn't purchase the excess supply, the market price of the product is

- |          |           |           |          |           |
|----------|-----------|-----------|----------|-----------|
| 1. Rs.40 | 2. Rs. 10 | 3. Rs. 20 | 4. Rs.25 | 5. Rs. 15 |
|----------|-----------|-----------|----------|-----------|

(.....)

12) Market equilibrium of a certain product is given as follows



What is minimum revenue expected by the producer by selling 20 units of this product

1. Rs. 80      2. Rs.180      3. Rs. 120      4. Rs. 40      5. Rs. 160      (.....)

13) The demand and supply schedules of a certain product during a certain time period is given below

P	Qd	Qs
80	500	900
70	600	800
60	500	700
70	400	600

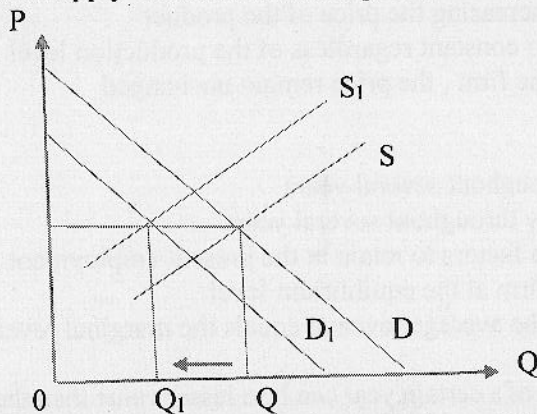
The government imposed a unit tax of Rs.10 on this product. What is the excess supply after tax at Rs.70?

1. 200      2. -200      3. 100      4. -100      5. 300      (.....)

14) The demand function of a certain product is  $Q_d = 20 - 2P$  and the excess demand function is  $XQ_d = 30 - 6P$ . The producer surplus at the equilibrium is

1. Rs.25      2. Rs. 22.50      3. Rs. 12.50      4. Rs.75.00      5. Rs.25.50      (.....)

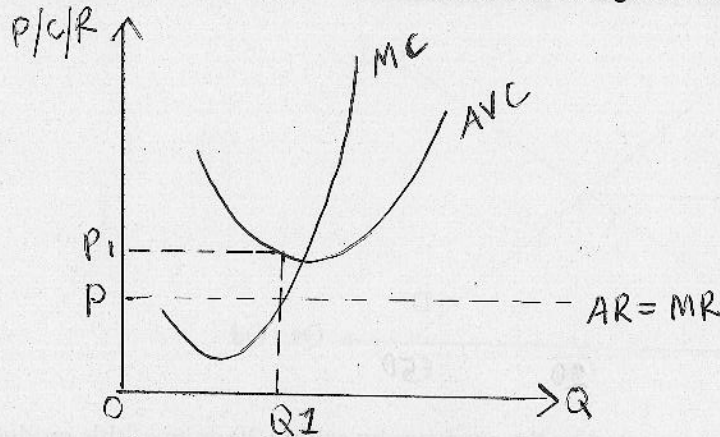
15) The demand and supply curves of a certain product are given below



The answer which gives the reason to decrease the equilibrium quantity from Q to Q<sub>1</sub> is

1. Production subsidy and a consumer tax  
 2. Increase of cost and decrease of complement prices  
 3. Development of technology and decrease of consumer income  
 4. Production tax and a decrease of substitute prices  
 5. Increase of complement price and decrease of consumer preference      (.....)

16) With which statement you can agree in relation to the below given diagram



1. The firm will maximize profits at  $E_1$  production point
  2. The firm earns economic profits at the output level of E
  3. The firm earns economic losses at the output level of E
  4. The short run supply curve of the firm is the marginal cost curve sloping upwards from E
  5. The minimum supply price of the firm is P
- (.....)

17) A perfectly competitive firm sells 200 units at Rs.250 each. The cost of the production firm are given below

Total fixed cost	20 000
Total variable cost	60 000
Marginal cost	200

What should the firm do to maximize profits or minimize losses in the short run?

1. Stop the whole production
  2. Expanding the production
  3. Contraction the production
  4. Increase the price
  5. Keeping the output at the present production level
- (.....)

18) What is meant by 'a perfectly competitive production firm has a perfect elastic demand curve'?

1. The firm can sell an infinite amount of product at the prevailing price
  2. Marginal cost of the firm doesn't change as the output increases
  3. The firm can increase revenue by increasing the price of the product
  4. The total revenue of the firm remain constant regardless of the production level
  5. What ever the production level of the firm , the price remain unchanged
- (.....)

19) Normal profits are

1. Average profit earned by a firm throughout several years
2. Average profit earned by an industry throughout several years
3. Profit needed to keep the production factor to retain at the present employment level
4. Profit needed to keep a production firm at the equilibrium level
5. The profit earned at the time when the average revenue equals the marginal revenue

20) Gross national product to the market price of a certain year can be a lesser value than the gross domestic product when

1. Net indirect taxes take a negative value
  2. Net foreign factor incomes take a negative value
  3. Net exports take a negative value
  4. Foreign resource gap take a negative value
  5. Net indirect taxes take a positive value
- (.....)

21) Which of the following indices indicate a situation of people's spending of a certain year become greater than the national income of that year?

1. Increase of government expenditure
2. Decrease of foreign investments
3. Net exports take a negative value
4. income getting contracted
5. net foreign transfers take a negative value



(.....)

22) which of the following factors would cause an over estimation of the gross domestic product due to inclusion under expenditure approach?

1. Fixed capital expenditure
2. Expenditure on consumption
3. Expenditure on second hand market activities
4. Expenditure on final goods and services
5. Changes in stocks

(.....)

23) Which of the following incomes are not included in the national income data?

1. Undistributed profits of companies
2. Net incomes of peasants
3. Grants received by senior citizens of house holds
4. Income received by a musician for music composing
5. Interest paid for the businessmen who supplied financial capital

(.....)

24) Which of the following can be notices when the business cycle moves from trough to the peak?

1. Real output increase employment increase and inflation is created
2. Real output increase employment decrease and inflation decrease
3. Real output increase employment increase and inflation decrease
4. Potential output increase employment decrease and inflation is created
5. Potential output increase real output decrease and inflation decrease

(.....)

25) According to the national accounting concepts, when the wages, interest, profits and property incomes are added to the balance of the primary income of the balance of payment

1. Gross national income
2. Net domestic product
3. Net domestic income
4. Gross national income
5. National income

(.....)

26) The nominal gross domestic product of a certain economy is Rs.1600 million. Real gross domestic product is Rs.1200 million. What is the value of the deflator of gross domestic product of that country in million?

1. 1.75
2. 133.3
3. 75
4. 1.66
5. 2.20

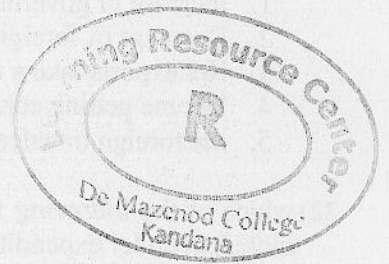
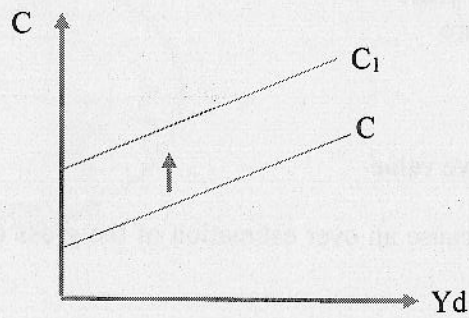
(.....)

27) Which of the following statements correctly define the equilibrium national output according to the macro economics?

1. Any output level which is kept constant without decreasing or increasing
2. Any output level which is kept constant above the under employment level
3. Any income or output level which determines on the production possibilities curve without any fluctuations
4. Keeping the prevailing employment level without fluctuations
5. Any output level which is at full employment level or above that

(.....)

28) The diagram shows how the consumption curve changed due to a certain change in a hypothetical economy



With which statement you can agree according to the given diagram?

	National income	Marginal propensity to consume	Average propensity to save
1.	Increase	Decrease	Remain unchanged
2.	Decrease	Increase	Decrease
3.	Increase	Remain unchanged	Decrease
4.	Remain unchanged	Remain unchanged	Increase
5.	decrease	increase	decrease

(.....)

29) In an economy where the consumption function is  $C = 100 + 0.8 Y_d$ , the government purchases were increased by Rs.30 billion and at the same time autonomous taxes were increased by Rs.35 billion to find revenues for those purchases. What is the result of this activity?

1. Equilibrium national income will increase by Rs.100 billion
2. Aggregate demand will decrease by Rs.30 billion
3. Equilibrium national income will decrease by Rs.100 billion
4. Aggregate demand will increase by Rs.10 billion
5. There is no effect on the aggregate demand

(.....)

30) In a simple economy  $C = 100 + 0.8 Y_d$  and  $Y = 1000$ , find the investment level

1. 630
2. 2500
3. 370
4. 3000
5. 600

(.....)

31) Marginal propensity to consume in a simple economy is Rs.0.6. What is the expansion of the equilibrium income when the investments are increased by Rs.150 billion?

1. Rs. 375 million
2. Rs. 15 million
3. Rs.60 million
4. Rs. 9 million
5. Rs. 68 million

(.....)

32) Which of the following is not a M<sub>2b</sub> monetary aggregate?

1. Deposits in the licensed specialized banks
2. Residents deposits in off shore banking units
3. Demand deposits of general public in commercial banks
4. Current account balances of general public
5. Currency held by the public

(.....)

- 33) A person deposited Rs.4800 in a demand deposit of a commercial bank. If the statutory reserve ratio is 20% , what is the maximum loan amount that can be created by this bank after the process of credit creation?  
1. Rs. 22 200    2. Rs. 18 200    3. Rs. 19 200    4. Rs. 24 000    5. Rs. 16 200    (.....)
- 34) Which of the following factors would limit the profitability of a commercial bank?  
1. Nonexistence of excess reserves  
2. Decrease of primary reserved  
3. Decrease of interest rated  
4. Decrease of secondary reserves  
5. Keeping the liquidity at higher level    (.....)
- 35) Which of the following is included in the external cost of production?  
1. Cost included in the personal accounts of production  
2. Benefit received by the external parties due to a production activity  
3. Cost transferred on the external parties which is not borne by the producer  
4. Cost of factors purchased from out sided for the production  
5. Natural conditions like drought which can not be controlled by the producers    (.....)
- 36) What is meant by the deficit in the current account of the government budget?  
1. Government savings exist to cover up the current expenses  
2. Government savings take a positive value  
3. Government entrepreneurs should be sold to the private sector  
4. Government should reduce the capital expenses  
5. Government should obtain loans to maintain day to day economic activities    (.....)
- 37) Which of the following ways of financing the budget deficit will not create inflationary effect?  
1. Obtaining loans from the central Bank of Sri Lanka  
2. Obtaining loans from insurance companies  
3. Obtaining loans from Sampath bank  
4. Obtaining foreign loans  
5. Obtaining loans from commercial banks    (.....)
- 38) Which of the following are considered as public resources?  
1. A product which is rival and non-excludable  
2. A product which is non rival and excludable  
3. A product which can be collectively consumed  
4. A commodity which is non rival and can be consumed world wide  
5. A product which has positive externalities consumption and more social benefits    (.....)
- 39) When a pure public good is supplied to an extra person, the social marginal cost is  
1. Infinite                                      4. A zero value  
2. Borne                                         5. A positive value  
3. A negative value    (.....)
- 40) A product which created more external benefits than the personal benefits is  
1. National security                         4. Education service  
2. Personal motor vehicle                 5. TV channels  
3. Road ways    (.....)
- 41) A product in which the consumption can be limited by charging price and a competition exist in consumption should be a  
1. Private good  
2. Private or public good  
3. A welfare good  
4. A public good or a welfare good  
5. A private or a welfare good    (.....)



- 42) A product which is non excludable and rival is
1. Common parks
  2. Common grass lands
  3. Beach
  4. Radio channels
  5. Libraries
- (.....)
- 43) Which of the following is forwarded by the relevant minister to the parliament to get the consent to obtain extra funds when the funds allocated by the budget is not sufficient?
1. Supplementary estimate
  2. Supplementary budget
  3. Appropriation bill
  4. Decentralized budget
  5. budgetary Estimate
- (.....)
- 44) The negative effect that is on the private sector productive investments due to excessive use of domestic resources for budget deficit financing is
1. Income effect
  2. Substitute effect
  3. Crowding out effect
  4. Financial effect
  5. Interest effect
- (.....)
- 45) Which of the following is not a characteristic of a pure public good?
1. Non competitive consumption
  2. A product is indivisible in consumption
  3. A marginal cost exist when supplying for an extra person
  4. Beneficiaries cannot be limited
  5. Collective consumption
- (.....)
- 46) Assume that Japan and Korea produces motor vehicle and mobile phones. Following table gives the labour units needed for the production

commodity	Japan	Korea
Mobile phones	10	12
Motor vehicles	120	150

When opportunity cost of producing mobile phones is calculated in terms of motor vehicles for each country

	Japan	Korea
1.	0.8	0.04
2.	0.08	0.08
3.	0.008	0.04
4.	0.2	0.62
5.	0.3	0.25

- (.....)
- 47) According to table (46) which country has the comparative advantage of producing mobile phones
1. Japan
  2. Korea
  3. Both countries
  4. Non of the countries
  5. Only the absolute advantage is with Japan
- (.....)



48) The output obtained for one labour unit in England and Portugal are given in the following table

Commodity	England	Portugal
Clothes	20	24
Wine	2	12



What can be concluded by the information in the above table?

1. Portugal has the comparative advantage of producing clothes and wine
2. England has the comparative advantage of producing clothes and wine
3. Portugal has clothes and England has wine
4. England has clothes and Portugal has wine
5. England has the absolute advantage in both products (.....)

49) A depreciation in foreign exchange rate will

1. Increase the export prices
2. Decrease the import prices
3. Increase the export demand
4. Increase the import demand
5. Increase the interest rates (.....)

50) Which of the following fall under invisible exports of Sri Lanka?

1. A Japanese investor purchasing an air line ticket to come to Sri Lanka
2. A Japanese traveler spends money in Singapore
3. Expenses made by a Sri Lankan house main in Saudi Arabia
4. Sri Lankan government repaying a loan obtained from the IMF
5. Transferring of profits earned by a Sri Lankan garment factory to its main factory in South Korea (.....)



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**Economics II**

**Duration : 3 hours**

**Instructions:** select at least two questions from part A and two questions from part B and answer five questions altogether.

**PART - A**

- (01) (i) explain the relationship between wants, scarcity and opportunity cost (4 marks)  
(ii) what factors determine the production possibility of a country? (4 marks)  
(iii) explain with the use of a diagram, the opportunity cost behavior which emerge due to mismatch of resources used in the production (4 marks)  
(iv) explain with suitable diagrams how the increase or decrease of present consumption affect the economic growth rate of that country (4 marks)  
(v) explain a situation with a diagram when one of the main assumptions behind the PPC is broken (disrupted) (4 marks)
- (02) (i) what is the task of government in a free market economy (4 marks)  
(ii) explain personal cost and social cost. What effect will take place on the efficiency of Market economy when there is a mismatch exist between the two costs (4 marks)  
(iii) what are welfare goods? Why doesn't the market sufficiently supply these? (4 marks)  
(iv) explain the intervention of government in a mixed economy in the process of creation of equity in income distribution (4 marks)  
(v) what are the disadvantages of a centrally planned economy? (4 marks)
- (03) (i) why does the demand curve of the concerned product slopes downwards from left to right ? (4 marks)  
(ii) what factors affect the supply curve of a product to shift to left? (4 marks)  
(iii) explain the net welfare effect take place when the government imposes a maximum price for a product with a suitable diagram (4 marks)  
(iv) explain a situation where excess of resources are allocated to produce a certain product due to the intervention of government (4 marks)  
(v) what is meant by income elasticity of demand? What is its practical use? (4 marks)

- (04) (i) explain the difference between short run cost and long run cost (4 marks)
- (ii) show the difference between marginal revenue and average revenue and explain the behaviour of marginal revenue and average revenue of a perfectly competitive firm (4 marks)
- (iii) why does a perfectly competitive firm acts as a price taker? (4 marks)
- (iv) explain the difference between accounting profit and economic profit (4 marks)
- (v) what are the market structures which earn zero economic profits in the long run?  
What are the common features seen in those market structures? (4 marks)
- (05) (i) explain the difference between Gross domestic product and Gross national income (4 marks)
- (ii) estimate the Gross domestic product to the market price under three approaches: income, Expenditure and production using your own data (8 marks)
- (iii) what is known as 'disposabl gross national income'? what are the adjustments that should be done to the gross domestic product to obtain gross national income?(4 marks)
- (iv) what is meant by per capital gross national income? How does is estimated?  
What ar e its values in recent years? (4 marks)

### PART – B

- (06) (i) why does the sum of marginal propensity to consumer and marginal propensity to save Equal to one? (4 marks)
- (ii) there are two ways of representing the macro economic equilibrium of an open economy. Show the two ways in suitable diagrams (4 marks)
- (iii) following data related to a certain economy without foreign sector are given below
- |                      |                     |
|----------------------|---------------------|
| Consumption          | $C = 120 + 0.6 Y_d$ |
| Taxes                | $T = -150 + 1/6 Y$  |
| Investments          | $I = 250$           |
| Government purchases | $G = 400$           |
| Transfers            | $Tr = 50$           |
- a) Calculate the equilibrium national income level? (4 marks)
- b) Estimate the government savings? (4 marks)
- c) If the private investments increase by 170 million , what will be the private Consumption expenditure? (4 marks)
- (07) (i) differentiate between liquidity and liquidity preference (4 marks)
- (ii) explain the difference between monetary base and monetary aggregate (4 marks)
- (iii) what are the near money components included in the broad money supply of  $M_4$ ? (4 marks)
- (iv) what is the effect of inflation on nominal and real exchange rates of a country? (4 marks)
- (v) introduce the 'national consumer price index' as a measure of inflation in Sri Lanka (4 marks)

- (08) (i) what are the main components in the financial system of Sri Lanka (4 marks)
- (ii) what is meant by monetary policy? What are the main targets of Central Bank of Sri Lanka in controlling the monetary policy instruments? (4 marks)
- (iii) a competitive commercial banking system works with 700 million reserves, 1300 lending, 500 million securities under 20% statutory reserve ratio. The M1 money supply of the economy is 4000 million and the currency held by public is 1500 million.

- a) When the excess reserves are granted as loans
- (i) Prepare the assets and liabilities structure of the economy (4 marks)
- (ii) What is the new money supply? (2 marks)
- b) If the general public deposit 300 million currency in the banking system, after all adjustments
- (i) Find the total deposits (2 marks)
- (ii) Find the new money supply (2 marks)
- (iii) Show the new assets and liabilities structure (2 marks)

- (09) (i) what are the features of a good taxation system? (4 marks)
- (ii) what is the base of distinguishing direct and indirect taxes? (4 marks)
- (iii) explain the composition of government revenue of Sri Lanka in recent years (4 marks)
- (iv) 'the unsettled debt in Sri Lanka is a higher percentage when compared with gross domestic Product'.
- a) What are the values of government debt to the gross domestic product in Sri Lanka in 2013- 2016 period? (4 marks)
- b) What are the economic effects of existing of government debt at a higher rate? (4 marks)

- (10) (i) Bangladesh and China produce Clothes and food. The information related to production are given below

Labour cost (hours) for one unit of production

Country	clothes	food
Bangladesh	8	2
China	8	4

- a) What are the countries having absolute advantage for clothes and food? (2 marks)
- b) Find the opportunity cost of each product of each country (2 marks)
- c) What are the countries having comparative advantage for each product (2 marks)
- d) Which country should specialize which product? (2 marks)
- (ii) What are tariff and non tariff barriers exist for international trade? (4 marks)
- (iii) explain the aims and tasks of World Trade organization towards international trade Activities ? (4 marks)