De Mazenod College- Kandana
G.C.E.(A/L) Examination 2017
Economics I
Grade 12 - 3rd Term Evaluation (July 2016)

27 - 07 - 2016

- Select the most appropriate answer.
- answer all questions

(1) Which of the following statements can be considered as a macro economic statement?
1. rubber prices decreased by 10% last year
2. unemployment rate of last year was 5.8% from the labour force
3. the real gross domestic product increased by 7% last year
4. the general price level increased by 4% last year
5. the tax revenue of the government decreased by 8% last year

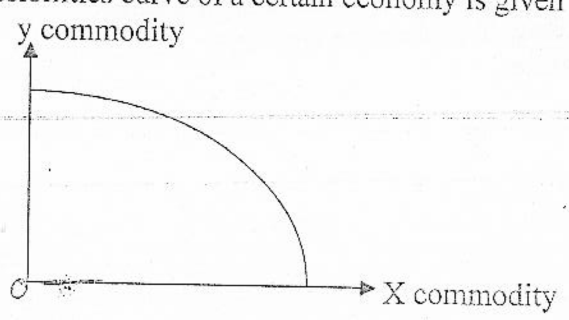
(2) the main economic units which take decisions in an economic system is
1. households, business firms and banks
2. house holds, business firms and government
3. business firms, government and non government institutions
4. business firms, banks and those who engage in foreign trade
5. households, government and banks

(3) the opportunity cost of a certain activity is
1. same for all engage in those activities
2. calculated by including the financial cost and the sacrificed income
3. calculated by including only the financial cost of that activity
4. calculated by including only the sacrificed income due to that activity
5. measured only the direct benefits emerged due to that activity

(4) on the production possibilities curve of a certain economy
1. technology changes
2. one production can be increased without sacrificing the other product
3. the production resources are not fully utilized
4. the existing resources are fully utilized
5. an inefficiency of the economy exist

(5) select the statement which belong to the micro economics
1. increase of inputs prices cause an increase in the price levels
2. decrease of total production causes a decrease in employment
3. decrease of interest rate causes an increase in money demand
4. increase of money supply causes a decrease in the interest rates
5. decrease of marginal productivity causes an increase of marginal cost

(6) the production possibilities curve of a certain economy is given below



Select the correct statement related to the above production possibilities curve?

1. homogeneous resources are utilized for production
2. same methodology is used for production
3. heterogeneous resources are utilized for production
4. there is a change in productivity of resources
5. the resources which are used for one industry can be used for the other industry in the same way

(7) if all the resources are perfect substitute for all the economic activities, which of the following is correct?

1. the production of all the commodities can be increased
2. the production possibilities curve will be a straight line
3. there is no possibility to exist a mutually beneficial trade and specialization
4. economy fails to obtain comparative advantage related to any country, any person or any activity
5. the scarcity of production resource is eradicated

(8) all the following except one can be seen in a capitalist market economies. which of the following is not seen?

1. price mechanism based on demand and supply
2. private property ownership
3. households and entrepreneurs who work with self interest
4. entrepreneurial freedom
5. central planning

(9) in which of the following situations does the greatest government intervention is seen?

1. market economies
2. command economies
3. mixed economies
4. social market economies
5. traditional economies

(10) if a person increases demand for milk powder when the income increases, milk powder is

1. an example for inferior goods
2. an example for non economic good
3. an example for giffen good
4. an example for public goods
5. an example for normal good

(11) the price of a planned economy

1. directs the central planning authority regarding the commodity to be produced
2. provides incentives by earning profits for producers
3. rations scarce resources among alternatives
4. is a tool for formulating economic policies
5. decides the factor income distribution among house holds

(12) by which of the following, ' that a market economy has a consumer sovereignty' can be explained ?

1. supplying of commodities demanded by the consumers by the market
2. the government directs only to supply the necessary goods to the consumers
3. labourers have the freedom to have mobility according to the way they wish
4. the government engages in price controlling to protect the consumer
5. existing of a natural monopoly in the market

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(13) which of the following can be expected at any point on the production possibilities curve?
1. efficiency of resource distribution
2. economic efficiency
3. production efficiency
4. price stability
5. equity of distributing the product

(14) the income effect which affect to decrease the quantity demanded when the price of the concerned commodity increases
1. transferring of consumers towards comparatively low priced commodities
2. increase of the real income when the price of the product increase
3. decrease of the real income when he price of the product increases
4. decreasing the demand expecting the future prices of the product would decrease
5. decrease of demand by decreasing the financial income when price increase

(15) following are few points related to the linear demand and supply conditions of a certain product

price	quantity demanded	quantity supplied
1	27.5	2.5
2	25.0	5.0
3	22.5	7.5
4	20.0	10.0

Equilibrium price and the quantity respectively are
1. Rs.3 and 10 units
2. Rs 6 and 15 units
3. Rs. 8 and 20 units
4. Rs. 9 and 25 units
5. Rs. 10 and 30 units

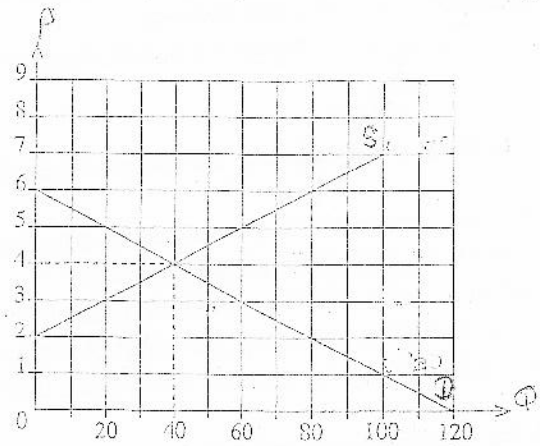
(16) the compulsory condition that can be existed in the market equilibrium of a certain product is
1. producer surplus and consumer surplus is equal
2. excess demand price and excess supply price is equal
3. excess demand price and excess supply price is zero
4. excess quantity demanded and excess quantity supplied is equal
5. consumer surplus and producer surplus is zero

(17) the domestic demand and supply curves for sugar in a small economy is as follows
Qd = 320-3P Qs = -80 + 2P

also assume that the sugar market of this economy is opened for the world market and the world market price of one unit of sugar is Rs.60. what is the quantity supplied to the market domestically when the sugar market is opened for foreign trade?
1. 40 units 2. 60 units 3. 80 units 4. 100 units 5. 140 units

(18) assume that the demand for petrol is more inelastic and the supply is more elastic. when a production tax is imposed on petrol under this condition, the tax burden
1. will be greaterly borne by the purchasers
2. will be greaterly borne by the producers
3. will be borne equally by the producers and consumers
4. will be totally borne by those who pay taxes
5. will not be borne either by producers or consumers

(19) Demand and supply curves of a competitive market for an agricultural product is given below.



The government decides to grant a Rs.2/= unit subsidy for this product to increase the production . the consumer surplus after granting the subsidy is

1. Rs.20   2 .rs. 80   3. Rs. 90   4 .Rs.160   5 . Rs. 180

(20) If the supply decreases and the demand increases for a normal good which is sold in a competitive market at a given time

1. The equilibrium quantity increases and the equilibrium price decrease
2. Both equilibrium price and quantity will increase
3. Equilibrium quantity will increase. Equilibrium price may increase or decrease
4. Equilibrium price decrease. Equilibrium quantity may increase or decrease
5. Equilibrium price increase. Equilibrium quantity may increase, decrease or remain unchanged

(21) If the quantity demanded of a product increases when its price increase, it is a

1. Inferior good   4. Normal good
2. Substitute good   5 . giffen good
3. Complement good

(22) X is an inferior good. When the consumer income decreases

	Price of X	Quantity demanded of X	Demand of X
1.	Decrease	Increase	Increase
2.	Increase	Decrease	Increase
3.	Increase	Increase	Increase
4.	Increase	Decrease	Decrease
5 .	decrease	increase	decrease

(23) Domestic demand and supply conditions for milk powder in Sri Lanka is given below

Qd = 320-3P   Qs = 80+2P

If the world market price of milk powder is Rs. 50, how much of milk powder is imported?

1. 20 units   2. 40 units   3. 60. Units   4. 80 unit   5. 0 units

(24) How will the tax burden distribute when a production tax is imposed on a product which have a greater inelasticity of demand and perfect elastic supply?

1. Consumers bear a greater burden
2. Suppliers bear a greater burden
3. Suppliers bear the burden alone
4. Consumers bear the burden alone
5. Both consumers and suppliers bear the burden equally

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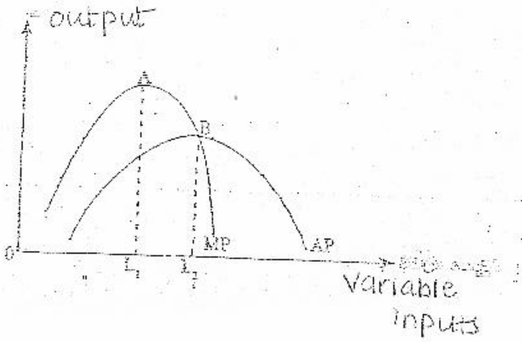
(25) The supply elasticity of a certain commodity is 1.25 and the demand elasticity is 0.75. When the government imposed a unit tax, a tax burden of Rs. 12.50 was placed on the consumer. The amount of the unit tax is,

1. Rs10 2. Rs. 20 3. Rs. 30 4. Rs.40 5. Rs.50

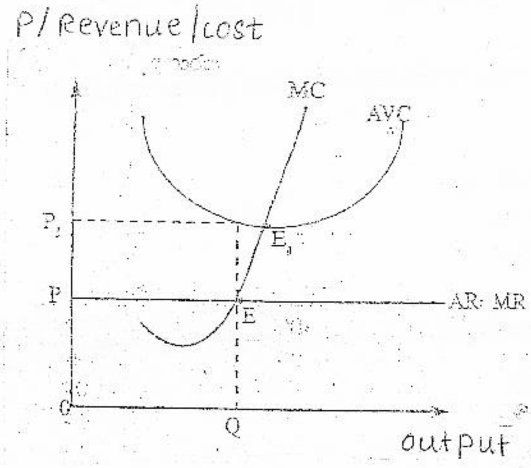
(26) The following diagram shows the behavior of average productivity and marginal productivity when the variable inputs are increased in a short run production



When the variable inputs are increased from L1 to L2 in the above diagram, the change of short run variable cost and marginal cost is

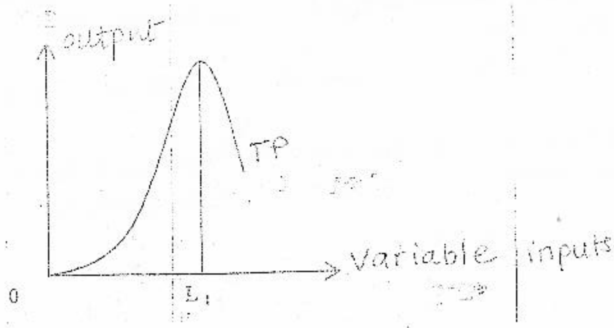
	Average variable cost	Marginal cost
1.	Decrease	Decrease
2.	Decrease	Increase
3.	Increase	Increase
4.	Increase	Decrease
5.	Increase	Remain constant

(27) With which statement you can agree, related to the firm given by the diagram



1. The firm maximizes profits related to the production level of E1
2. The firm earns super normal profits at the output level of E
3. The firm earns losses at the output level of E
4. The short run supply curve of the firm is the marginal cost curve runs upwards from E
5. The minimum supply price of the firm is P

(28) The following diagram shows the relationship between inputs and output of a short run production firm



At the level of L1
1. Marginal productivity takes a negative value
2. Average productivity will be zero
3. Marginal productivity will be zero
4. Marginal productivity and average productivity will be equal
5. Average productivity will be lower than the marginal productivity

(29) If the production increases than the level where average variable cost takes the minimum in a short run production process

	Marginal cost	Average variable cost	Average fixed cost
1.	Decrease	Decrease	Decrease
2.	Increase	Decrease	Decrease
3.	Increase	Decrease	Increase
4.	Increase	Increase	Decrease
5.	Decrease	Increase	Increase

(30) The total cost of a short run production is Rs. 180 when the production is zero. If the total cost become Rs. 720 as the production is 12 units, the average variable cost at that production is
1. Rs. 15 2. Rs. 30 3. Rs. 45 4 .Rs. 60 5 .Rs. 75

(31) The reason for decreasing the average total cost of a long run production is
1. Decreasing returns to scale
2. Economies of scale
3. Diminishing marginal productivity
4. Technological economies of scale
5. Marketing economies of scale

(32) Cost and output information of a certain firm in the short run are given below

Output (units)	Cost (Total)
0	200
1	360
2	380
3	390
4	410

The average fixed cost and the average variable cost of the above firm at out put level 4 respectively are
1. 50 , 52.50
2. 40 , 42
3. 100, 52.50
4. 200, 280.50
5. 80, 110.20

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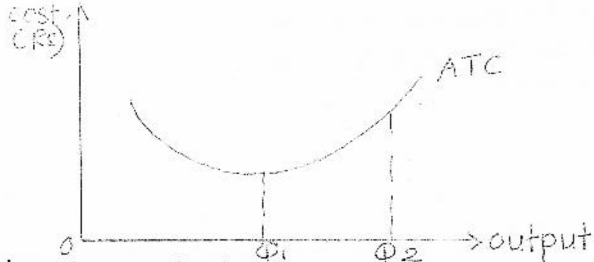
(33) The diagram shows how the total cost behave when the employment of production resources including capital and labour is increased



When the firm increases production from 0Q1 to 0Q2 it shows

1. Benefits related to monopoly power
2. Benefits exist due to increase of specialization
3. Diseconomies of scale
4. Increasing returns to scale
5. Increasing the production efficiency

(34) A certain production firm employs a fixed amount of capital inputs and variable labour inputs to produce commodity X. If the amount for labour is increased , what effect would it have on the production cost of this firm?

	Total variable cost	Total fixed cost	Total cost
1.	Decrease	unchanged	decrease
2.	Decrease	decrease	decrease
3.	Increase	decrease	unchanged
4.	Increase	unchanged	increase
5.	Increase	increase	increase

(35) By which of the following statements, the marginal revenue of a perfect competitive firm is defined?

1. It will take a fixed value
2. It increases when the sales increase
3. It decreases when the sales increase
4. It first increases and then decrease
5. It first decrease and then increase

(36) The average variable cost at 20units is Rs.15. total cost is Rs.500. marginal cost when the production is increased upto 40 units Rs.10. The average variable cost when producing 40 units is

1. Rs.10 2. Rs. 12.50 3. Rs. 15 4. Rs. 17.50 5. Rs. 20

(37) Select the correct statement out of the statements given below related to the nature of short run production cost curves

1. The total fixed cost is given by the vertical difference between average total cost curve and average variable cost curve
2. Marginal cost is given by the slope of the total cost curve
3. Marginal cost is given by the slope of the straight line drawn from the origin to any point on the total cost curve
4. Average fixed cost is given by the slope of the straight line drawn from the origin to any point on the total variable cost curve
5. The average fixed cost curve slopes downwards at first and then slopes upwards when the output is increased

(38) Which of the following is not a characteristic of a perfect competitive firm?

1. Existing of a downward market demand curve
2. Every firm faces a perfect elastic demand curve
3. Marginal revenue of each firm equals to its price
4. Existing of economic profits in the long run
5. Firm is a price taker

(39) Gross domestic product

1. Equals to the value of all the goods and services the goods and services transacted in the year considered
2. Includes the financial transactions related to bonds or shares which take place in the year considered
3. Includes the value of intermediate goods which are used in the intermediate production stages
4. Equals to the total expenditure spend on purchasing all the final goods and services produced domestically during the year considered
5. Includes all the goods and services produced during the year

(40) Which of the following would most likely to happen in the expansionary period of a business cycle?

1. Decreasing the employment rate and the increase of real gross domestic product
2. Increasing the unemployment and increasing the real gross domestic product
3. Increasing the inflation and decreasing the real gross domestic product
4. Increasing the interest rates and increasing the number of firms gets bankrupted
5. Increasing inflation and decreasing employment

(41) All the following except one item is excluded when calculating the gross domestic product. Select the item which is not excluded

1. Value of intermediate goods
2. Value of all the houses constructed during the considered time period
3. Value of goods which are consumed
4. Transactions which have a pure financial nature
5. Subsidies granted by the government

(42) Which of the following has an important effect to increase the output level of an economy?

1. Increasing savings
2. Decreasing government subsidies
3. Increasing government taxes
4. Increasing government consumption expenditure
5. Increasing imports

(43) Only three firms A,B and C exist in a certain economy. Firm A produces an output of Rs.25 000, B firm produces an output of Rs.20 000 and firm C produces an output of Rs.15000. Firm A obtains Rs.5000 inputs from firm B, Rs.3000 inputs from firm C. Firm B obtains Rs. 4000 inputs from firm A and Rs.5000 inputs from firm C. Firm C obtains inputs worth Rs. 8000 only from firm A.

Accordingly the value of the output of the economy based on value added is

1. Rs. 45000 2. Rs. 35 000 3. Rs. 25 000 4. Rs. 15 000 5. Rs. 10 000

(44) Gross domestic fixed capital formation + net exports + changes in inventories equals

1. Gross domestic savings
2. Gross domestic expenditure
3. Gross domestic investments
4. Expenditure on gross domestic product
5. Gross national savings

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(45) Economic growth is measured by
1. Annual percentage change of nominal gross domestic product
2. Annual percentage change of real gross domestic product
3. Annual percentage change of nominal per capita gross domestic product
4. Annual percentage change of disposable per capita gross national income
5. Annual percentage change of purchasing power parity per capita gross domestic product

(46) Which of the following answers include the components which are used to calculate the product to the final product system?
1. Capital goods, consumption goods, changes of intermediate goods inventories
2. Capital goods, intermediate goods and services production
3. Consumption goods, investment goods, services production
4. Consumption goods, investment goods, value of final products
5. Agricultural goods, industrial goods, services production

(47) What is meant by 'value added' in the production approach for national accounts?
1. Value of agricultural , industrial and services production
2. Payments for factors and capital depreciation
3. Net exports and payments for factors
4. Payments for factors and cost of inputs
5. Factor incomes, capital depreciation and net exports

(48) When there is a deficit in trade account and services account of the balance of payments, which effect will it have on domestic production and domestic savings?

	Domestic production when compared to domestic expenditure	Domestic savings when compared to gross investments
1.	Decrease	Increase
2.	Decrease	Decrease
3.	Increase	Decrease
4.	Increase	Increase
5.	decrease	Remain unchanged .

(49) What is the adjustment that should be made to obtain gross national income to the market price when net domestic income is given?
1. + net indirect taxes + capital depreciation+ net exports
2. – net indirect taxes + net exports + net foreign primary income
3. – capital depreciation – net indirect taxes + net exports
4. + net indirect taxes + capital depreciation + net foreign primary income
5. – capital depreciation + net exports + net foreign primary income

(50) Which of the following should be adjusted to gross domestic expenditure to obtain disposable gross national income?
1. Trade account balance
2. Services account balance
3. Primary income account balance
4. Current transfers account balance
5. Current account balance

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Economics II
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Select two questions from part A and two questions from part B and answer <u>five questions</u> altogether

PART – A

(01) (i) what are known as 'economic resources'? do you have any arguments to prove that land is an economic resource? Explain' (3 marks)

(ii) what is meant by ' natural capital'? why is 'money' not considered as capital in Economics? (4 marks)

(iii) write the main tasks of an entrepreneur? (3 marks)

(iv) (a) what is meant by 'efficiency'? (2 marks)

(b) do all points along the production possibilities curve show the same level Of economic efficiency? Explain (4 marks)

(v) show the difference between the potential output (equal distribution line) of a Business cycle and production possibilities curve (4 marks)

(02) (i) 'economic systems can be categorized based on different criteria'. Write three characteristics Of a market economic system based on those criteria (3 marks)

(ii) 'a market economy always work towards the social welfare'. Discuss the statement (4 marks)

(iii) explain 'social market economic system' and give examples (3 marks)

(iv) explain (a) income distribution problem
(b) production problem
(c) resource allocation problem of an economic system (6 marks)

(v) explain (a) traditional economic system
(b) new traditional economic system giving examples (4 marks)

(03) (i) what factors are depicted when it is said that a certain product is supplied to the market (3marks)

(ii) explain why a greater quantity is supplied at higher price than at a lower price (4 marks)

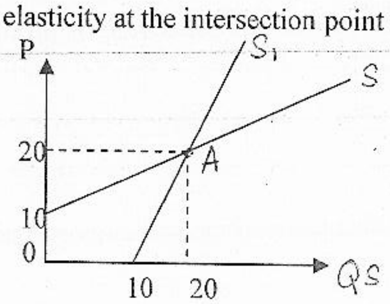
(iii) explain the following with relevant diagrams

(a) the effect on the supply curve of the concerned product when the substitute price Increases

(b) effect on the supply curve of a joint product when the price of the concerned product Increases (4 marks)

(iv) explain the relationship between the individual supply curve and the market supply curve With example (5 marks)

(v) what can you say about the elasticity at the intersection point of the following supply Curves (4 marks)



(04) (i) what is meant by a market which has a stable equilibrium? Explain with a diagram (4 marks)

(ii) (a) what are the ways of government intervention when the price determined by The market is not favourable for the producers? (2 marks)

(b) write two economic effects of each of the above instances (4 marks)

(iii) the equilibrium price of a certain product is Rs.100 and the quantity is 1000 units. The Demand and supply elasticity at the equilibrium is 1.0

(a) find the consumer surplus and the producer surplus (4 marks)

(b) if the government grants a Rs.10 subsidy for this product

I. what is the consumer and producer surplus after subsidy? (4 marks)

II. find the government expenditure on subsidy? (1 mark)

III. find the lost economic welfare (1 mark)

PART -B

(05) (i) Show the difference between direct cost and indirect cost giving one example for each (4 marks)

(ii) why do economists consider normal profit as a cost component? (4 marks)

(iii) what is meant by rule of profit maximizing? How can it state for production firm which Act as a price taker? (4 marks)

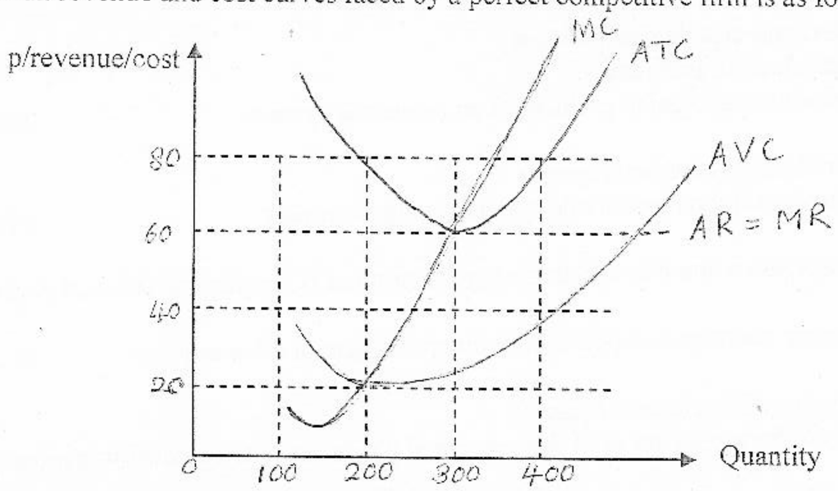
(iv) define 'natural monopoly' (4 marks)

(v) explain

(a) law of returns to scale

(b) law of diminishing returns (4 marks)

(06) (i) the short run revenue and cost curves faced by a perfect competitive firm is as follows



(a) find the economic profit at the equilibrium of the above firm (2 marks)

(b) find the total fixed cost of the firm (2 marks)

(c) below what price should the firm decide to the leave the industry (1mark)

(ii) why are production firm continuously engage in production even if the economic profits are zero? (2 marks)

(iii) show the difference between producer surplus and the economic profit (4 marks)

(iv) explain the following

(a) amortization payments

(b) sunk cost

(c) minimum efficient scale (6 marks)

(v) state three differences between the perfect competition and monopolistic competition (3 marks)

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(07) (i) state three major changes taken place in National Accounting system of Sri Lanka (3 marks)

(ii) what are the main sectors engage in economic activities according to the new system? (4 marks)

(iii) what are the two main macro economic units which contributed to the private consumption expenditure in 2015? (2 marks)

(iv) state three examples to show the relationship between the current account of the balance of payment and national accounts (6 marks)

(v) (a) what are the two major expenditure components which come under Gross domestic capital formation? (2 marks)

(b) explain

I. basic price

II. producer's price

III. purchaser's price (3 marks)

(08) (i) the data for a hypothetical economy for 2015 are given below. (Rs. Million)

Private consumption expenditure	100
Gross domestic capital formation	10
Government consumption expenditure	60
Goods and services exports	30
Final consumption	160
Goods and services imports	50
Foreign primary income receipts	40
Foreign primary income payments	60
Net foreign current transfers	+40
Changes in inventories	-5
Consumption of fixed capital	+20
Taxed on goods and services (subsidies deducted)	+10

Calculate

(a) Gross Domestic Product to the market price

(b) Gross National Income to the market price

(c) disposable gross national income

(d) value added based on basic prices

(e) national savings and domestic savings (10 marks)

(ii) (a) how do you calculate the rate of investments? (2 marks)

(b) what is the rate of investments in Sri Lanka in 2015? (2 marks)

(iii) explain

(a) informal economic activities

(b) hidden economic activities (4 marks)

(iv) why is interest payments for government loans are excluded considering transfers in national accounting? (2 marks)