

De Mazenod College – Kandana
G.C.E. (A/L) Examination 2019
3rd Term Test – July 2019
Economics I

15.07.2019

(2 hours)

- Select the most appropriate answer

1) Following statements related to production resources of an economy are given to you. The most accurate statements is,

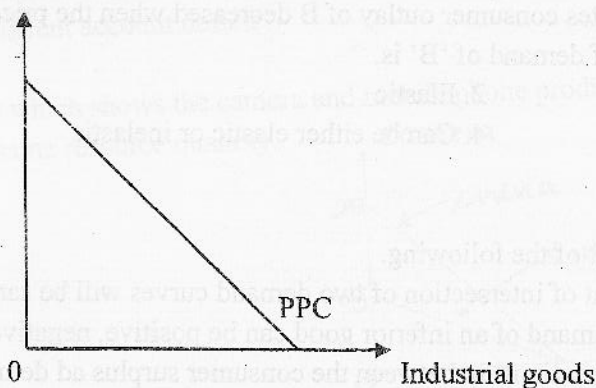
1. An economy possesses a constant resource endowment
2. One of the main characteristics of economic resources is that they do not entail an opportunity cost
3. Sometimes, economic resources are also supplied unlimitedly at zero price.
4. Economic resources comprise both property resources and human resources.
5. Supply of economic resources is comparatively elastic. (.....)

2) Best definition for the difference between renewable and non renewable resources is,

1. Non renewable resources are scarce when compared to renewable resources.
2. Renewable resources get depreciated with the use but the non renewable resources do not.
3. Non renewable resources are non living while renewable resources are living.
4. There are limitations related to renewable resources but for non renewable resources there are no limits
5. Command economics interfere more for non renewable resources than the renewable resources. (.....)

3) Following is a production possibilities curve related to an economy.

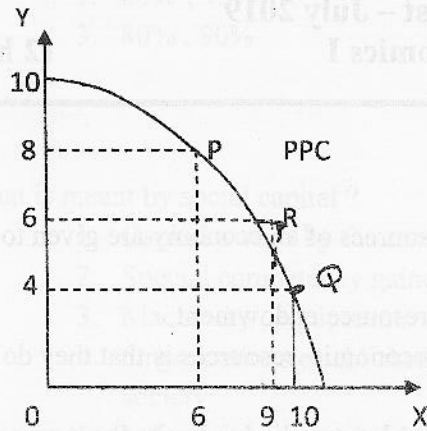
Agricultural goods



The reason for the down ward slope of the curve from left to right is,

1. Agricultural output and industrial output is at diminishing productivity
2. Agricultural output and industrial output is at an increasing productivity.
3. Consumers select between agriculture and industrial goods.
4. Resources available is limited.
5. Existing of a constant opportunity cost. (.....)

4) The production possibility of an economy which produces X and Y products is given below.



According to the graph, the consumption point 'R' can be achieved by,

1. Export 2Y and import 3X at point P
2. Export 2Y and import 2Y at point P
3. Export 2Y and import 1X at point Q
4. Export 2Y and import 2Y at point Q
5. Not exporting or importing anything at point R (.....)

5) Select the incorrect statement out of the following.

1. Price mechanism controls the economy methodically without any disturbance.
2. It's rare to see market instabilities in a command economy.
3. Production firms are the demanders of the factor market in a free market structure
4. Consumers are the buyers of the commodity market in free market structure.
5. Wealth of persons affect every time to create income disparities in a market economy. (.....)

6) A and B are production substitutes consumer outlay of B decreased when the price of 'A' increased. The price elasticity of demand of 'B' is,

1. Unitary elastic
2. Elastic
3. Inelastic
4. Can be either elastic or inelastic
5. Perfect elastic (.....)

7) Select the accurate statement out of the following.

1. Elasticity at the point of intersection of two demand curves will be same.
2. Price elasticity of demand of an inferior good can be positive, negative or zero.
3. There is a negative relationship between the consumer surplus and demand elasticity.
4. Producer revenue will increase when the supply increases of a product with inelastic demand.
5. When the demand curve is a rectangular hyperbola the elasticity will be same at every point on the demand curve. (.....)

1. Social benefits are greater than personal benefits
2. Social benefits are greater than social cost.
3. Existing negative externalities in consumption or production
4. Social cost is lesser than the perusal cost
5. External cost is greater than external benefits (.....)

33) One of the supply side economic policy is,

1. Decrease of interest rates.
2. Increase of house hold transfers by the house hold
3. Purchasing of securities by the government form the commercial banks.
4. Privatization
5. Control of inflation by reducing the budget deficit. (.....)

34) The income taxes paid by four households based on their incomes are given by the following table.

Income level (Rs.)	A	B	C	D
60 000	6 000	4 200	9 000	3 000
100 000	15 000	7 000	12 000	6 000
150 000	30 000	10 500	15 000	12 000

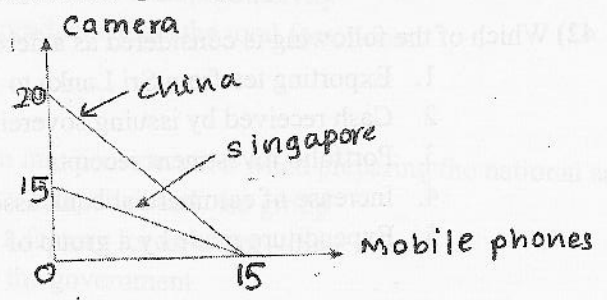
Out of the above who pay the taxes in accordance with the concept of equity ?

1. A, C
2. A, D
3. B, C
4. C, D
5. B, D (.....)

35) What is meant by the net cash deficit of the government budget ?

1. Overall deficit of the government budget
2. The deficit remaining further after financing the deficit by non expansionary methods.
3. Overall deficit which excludes loan installment repayment
4. Budget deficit which is obtained by deducting the foreign aid and grants from the overall balance.
5. Budget balance which is remaining after deducting the government loan repayment from the current account deficit (.....)

36) Following is a PPCs which shows the camera and mobile phone production of China and Singapore who use same resource quantity.



What is the correct statement accordingly ?

1. Comparative advantage for both productions is with China.
2. None of the countries receive the comparative advantage of any product .
3. Singapore receives the comparative advantage of producing camera.
4. The internal exchange rate within china is 1.33 telephone for 1 unit of camera
5. If Singapore enters t international trade they should specialize telephone production. (.....)

PLAC - P-21
 3/10/2019

37) The terms of trade of a certain country increased by 20% in a certain year. Import prices of that year had been increased by 120%. What is the export price index of that year?
 1. 264 2. 144 3. 124 4. 200 5. 240 (.....)

38) There was a favorable situation in the trade balance of a country after depreciating the exchange rates. What is the best import and export elasticity combination that will bring benefits in such a situation?

	Foreign demand elasticity for exports	Domestic demand elasticity for imports
1.	-0.5	-0.3
2.	-0.2	-0.8
3.	-0.1	-0.6
4.	-1.0	-0.1
5.	-0.7	-0.5

39) The domestic price of an imported product is Rs. 50. If the product is produced domestically Rs. 20/- input cost is incurred. If a 30% tariff is imposed on imports, the defective rate of protectionism is,
 1. 30% 2. 60% 3. 50% 4. 40% 5. 15% (.....)

40) When the real exchange rate declines,
 1. Balance of payment become unfavorable
 2. Imports are encouraged
 3. Exports are encouraged
 4. Foreign exchange speculative activities increase
 5. The nominal exchange rate is definitely under estimated. (.....)

41) The contribution on import expenditure by the consumer goods, intermediate goods and investments goods in year 2017 are respectively,
 1. 18% , 60% , 22% 2. 60% , 21% , 21%
 3. 60% , 18% , 22% 4. 18% , 54.5% , 23.2%
 5. 21.5% , 54.5% , 23.3% (.....)

42) Which of the following is considered as a debit entry of the current A/C
 1. Exporting tea from Sri Lanka to Iran
 2. Cash received by issuing sovereign bonds
 3. Portfolio investment receipts
 4. Increase of commercial bank assets
 5. Expenditure made by a group of Sri Lankan sports lovers in south Africa. (.....)

- 15) What is the correct statement related to the nature of behavior of short run cost curves,
1. Total fixed cost is depicted by the vertical distance between the average total cost curve and average variable cost curve.
 2. Marginal cost is given by the slopes of the total cost curve.
 3. The slope of the straight line drawn from the origin to any point on the total cost curve will give the marginal cost
 4. The slope of the straight line drawn from the origin to any point on the total variable cost curve will give the average fixed cost.
 5. The average fixed cost curve will slope down wards and then slope upwards when the output is increased. (.....)
- 16) The short run supply curve of a perfectly competitive firm is,
1. Positive slope of the total cost curve of the firm
 2. Positive slope of the average total cost curve of the firm
 3. Positive slope of the average variable cost curve of the firm
 4. Marginal cost curve which lies above the minimum average variable cost.
 5. Negative slope of the marginal cost curve. (.....)
- 17) Which of the following is not a characteristic of a perfectly competitive market ?
1. Existing of a downward sloping demand curve
 2. Every firm has a perfectly elastic demand curve
 3. Marginal revenue of each firm equals to the price
 4. Economic profits in the long term
 5. Firm is a price taker. (.....)
- 18) When the factor market and the commodity market both operates under perfect competition, the equilibrium employment level is decided,
1. When the total production of the economy is maximized.
 2. When the marginal product and marginal factor cost equals
 3. When the marginal revenue product equals the marginal factor cost.
 4. When the total revenue equals the total productivity
 5. When the total revenue product equals the total factor cost. (.....)
- 19) Which of the following is not taken into consideration when preparing the national accounts?
1. Fishing in the deep sea by Lakpahan and the group
 2. Production garments by a factory for an export order
 3. Free education given by the government
 4. Mr. Lakmi teaching his little daughter
 5. Denzil obtaining the service of a servant to look after her four children. (.....)
- 20) Some of the national accounting data related to two years of Sri Lanka is given to you.

Item	2015	2016
Gross domestic product to the market price	10 951 695	11 838 975
Gross Domestic product to the fixed price	8 633 890	9 012 026

Accordingly the economic growth rate of Sri Lanka in 2016.

1. 3.8 % 2. 4.4% 3. 5.2% 4. 3.4% 5. 4.8% (.....)

21) National accounting data of a certain country are as follows,

Gross domestic expenditure to market price	100
Exports	24
Imports	26
Net taxes on goods and services	10
Net foreign primary income	+1
Capital consumption	+10

Net national income to the basic price is, (million)

1. 78 2. 79 3. 81 4. 83 5. 91 (.....)

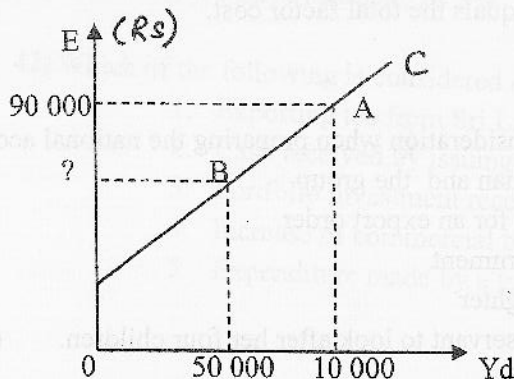
22) If the people of a certain country spend more than the national income of a certain year, which index show this situation?

1. Increase of government expenditure
 2. Decrease of foreign investment incomes
 3. Trade balance takes a negative value
 4. Income amount gets contracted
 5. Net foreign transfers take a negative value
- (.....)

23) What factor affects the private consumption curve to shift to right?

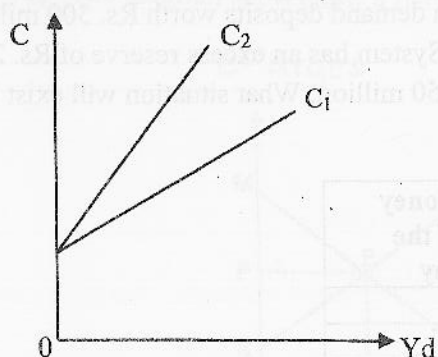
1. Increase of disposable personal income
 2. Decrease of disposable personal income
 3. Decrease of house hold wealth
 4. Increasing the house hold loans.
 5. House holder's expectations that future prices would increase.
- (.....)

24) A straight lined consumption function where $MPC = 0.82$ is given below. What is the consumption expenditure relevant for 'B' ?



1. 82 000 2. 50 000 3. 49 000 4. 41 000 5. 33 000 (.....)

25) Following figure shows how the consumption curve changed from C_1 to C_2 due to changes in savings pattern of a certain economy.



How does the change taken place in the consumption function affects the multiplier and marginal propensity to consume.

	Multiplier	MPC
1.	Decrease	Increase
2.	Increase	Decrease
3.	Increase	Increase
4.	Decrease	Decrease
5.	Unchanged	Increase

(.....)

26) Select the incorrect statement related to money,

1. Money is not attractive as a store of value during inflation
2. In economics, money is not considered as capital
3. Money acts as a medium of exchange when engaging in transactions.
4. Money substitutes engage in the task as a store of value.
5. Purchasing power of money is known as its real value.

(.....)

27) What is not held constant, when the quantity theory of monetary is in activation.

1. Velocity of circulation of money.
2. Real product
3. Money supply
4. Velocity of money circulation and number of transactions
5. Velocity of money circulation and real product.

(.....)

28) Which of the following is a contractionary monetary policy of the central Bank ?

1. Decreasing the statutory reserve ratio
2. Bank orders of CBSL
3. Decreasing the central Bank rate
4. Reducing the standard lending facility rate.
5. Selling of securities in the open market

(.....)

- 29) A certain commercial banking system maintain demand deposits worth Rs. 300 million and reserves worth Rs. 150 million. This banking. System has an excess reserve of Rs. 25 million. The narrow money supply of the economy is 750 million. What situation will exist if this system lend the total of excess reserves ?

	Statuary reserve ratio	Narrow money supply of the economy
1.	20%	1 000
2.	30%	800
3.	10%	1 750
4.	12%	1 250
5.	5%	3 250

(.....)

- 30) An inflation of demand side will create due to ,

1. Increase of wages as the labour demand increase
2. Increase of fuel price
3. Decrease of government expenditure
4. Increasing the profits by business companies
5. Increase of exchange rates

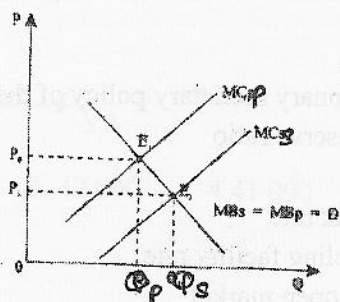
(.....)

- 31) Collective goods means,

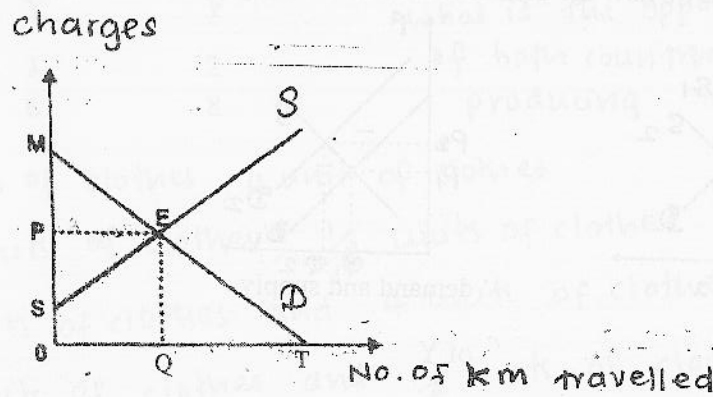
1. Goods which are non excludable and non rivalry
2. Goods which are non excludable and rival
3. Goods which are excludable and rival
4. Goods which are supplied by the government of a market economy aiming social welfare.
5. Goods which are excludable and non rival till the maximum capacity is reached.

(.....)

- 32) The following diagram gives a situation of market inefficiency related to a certain commodity. E_1 is the market equilibrium ad E_2 is the social optimum equilibrium what is the reason for the market inefficiency according to the diagram



8) The diagram shows how a flat rate is maintained for a public transport service of an economy.

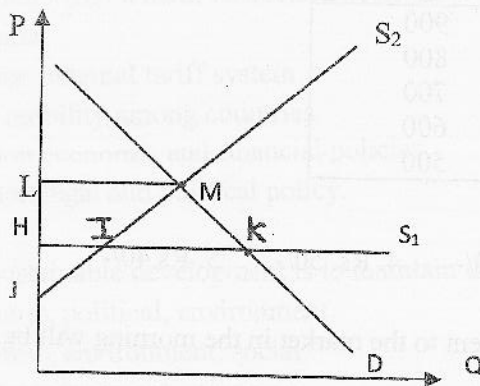


If the economy decides to supply the service free of charge to all, the size of the consumer surplus will be

1. Decreased by MEP
2. Increased by SPE
3. Increase by OPEQ
4. Increase by OPET
5. Increase by OSEQ

(.....)

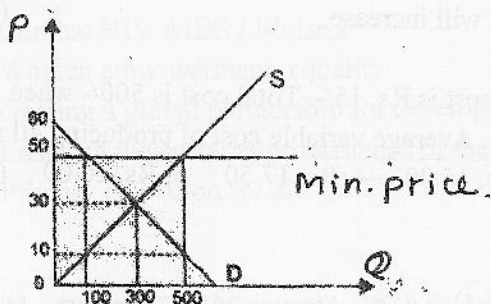
9) The demand and supply curves of a certain product are given as D_1 , and S_1 at their initial position. The lost consumer surplus as the supply curve shifts from S_1 to S_2 is,



1. HIML
2. HKML
3. IKM
4. NLM
5. HIJ

(.....)

10) Following diagram shows how the government plans to purchase the excess supply created under minimum price policy of the government. The lost economic welfare due to this intervention of government is,



1. Rs. 500
2. Rs. 4 000
3. Rs. 5 000
4. Rs. 16 000
5. Rs. 20 000

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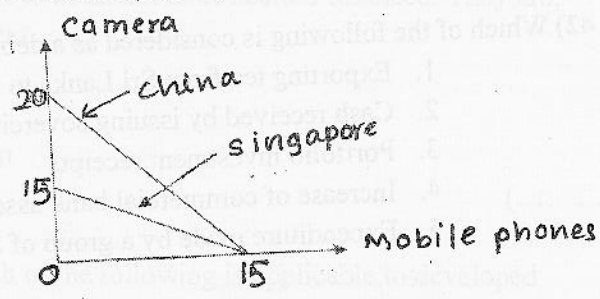
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43) X and Y countries produce wheat and clothes, and the following table shows the labour cost needed by each country; labour hours heeded to produce 1 unit

Product	X	Y
Wheat	3	2
Clothes	6	8

• What is the opportunity cost of both countries in producing wheat? (respectively)

1. . 2 units of clothes , 4 unit of clothes
2. . $\frac{1}{2}$ units of clothes , $\frac{1}{4}$ units of clothes
3. . $\frac{1}{2}$ units of clothes and 4 units of clothes
4. . 2 units of clothes and $\frac{1}{4}$ units of clothes
5. . 6 units of clothes and 8 units of clothes.

44) What is meant by nominal effective exchange rate ?

1. Exchange rate against SDR
2. Exchange rate determined by the overall balance of the balance of payment
3. Exchange rate compared to us dollar
4. Weighted average of the foreign currency used in international trade.
5. Average of the main international currency units. (.....)

45) Which of the following is not a main characteristic of an economic organization ?

1. Free trade
2. Common external tariff system
3. Factor mobility among countries
4. Common economic and financial policies
5. Common legal and political policy. (.....)

46) Main condition of sustainable development is to maintain three sectors balanced. They are,

1. Economic, political, environment
2. Economic, environment, social
3. Social, environment, religion
4. Environment, economic, human
5. Economic, human, political (.....)

47) Out of sustainable development goals, Which of the following is applicable to developed nations ?

1. Combat HIV AIDS / Malaria
2. Women empowerment, equality
3. creating a global partnership for development
4. Ensuring the sustainable existence of the environment
5. Primary education for all (.....)

48) A certain country consist of 80 million labour force, 300 million working population, unemployed population 8% . What is the employment rate and labour force participation rate ?

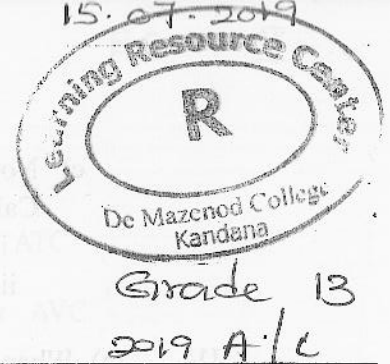
- | | | |
|--------------|--------------|--------------|
| 1. 80% , 75% | 2. 80% , 80% | |
| 3. 80% , 90% | 4. 75% , 80% | 5. 60% , 80% |
- (.....)

49) What is meant by social capital ?

1. Capital owned by the society
 2. Special competency gained by a society through education and knowledge
 3. Machinery , equipments and building owner by a society.
 4. Organizations established to achieve common social aims by the people of that society
 5. Labour force participation rate of a country
- (.....)

50) The district with lowest and highest poverty in Sri Lanka

- | | |
|-------------------------|-------------------------|
| 1. Colombo, Mulativ | 2. Colombo, Kilinochchi |
| 3. Colombo, Vavuniya | 4. Gampaha, Mulativ |
| 5. Gampaha, Kilinochchi | |
- (.....)



De Mazenod College – Kandana
G.C.E. (A/L) Examination 2019
3rd Term Test – July 2019
Economics II

• Select at least two question from part A and part B and answer 5 questions altogether.

Part A

- 1)
- I. Explain why every economy faces the problem of choice (2 marks)
 - II. Do you say that sustainable development and full employment do not match to happen? Explain your answer (4 marks)
 - III. What are economic resources? What do you include in it? (2 marks)
 - IV. Explain the constant opportunity cost using a production possibilities curve, why does the opportunity cost become constant? (4 marks)
 - V. Assume an economy which produces computer (horizontal axis) and mobile phones (vertical axis). Show the following effects on the production possibilities curve. (8 marks)
 - a) Imposing of economic sanctions by other countries.
 - b) The society decides to increase the resources allocated for computer production.
 - c) Emerging an unemployment situation in the computer sector due to destruction of capital resources.
 - d) Emerging an unemployment situation in the economy due to technological advancement in both industries.

- 2)
- I. Distinguish between a market economy and a mixed economy (4 marks)
 - II. How do you explain “self interest” in market economy (2 marks)
 - III. Following are demand and supply information of a good related to a product sold in a competitive market.

Price (Rs.)	Qd (units)	Qs (units)
30	80	80
40	40	120

- a) Calculate the consumer expenditure at the equilibrium. Why does it equal to producer revenue? (3 marks)
- b) The government decides the guaranteed price of this product Rs. 40/=
 - i. What is the market price when the total output is released to the market? (1 mark)
 - ii. What is the lost economic welfare? (2 marks)

c) Now assume that the maximum price of product is market at Rs. 20/= by the government. Calculate,

- i. The maximum black market price (1 mark)
- ii. If the black market price does not function, the new consumer surplus. (2 marks)

IV. (a) When a unit tax is imposed on buyer

- i. Price paid by buyer
 - ii. Price received by seller
- Represent in a suitable diagram (3 marks)

(b) when the negative income effect of a product is not able to cancel off the substitute effect, what is the type of product is it (2 marks)

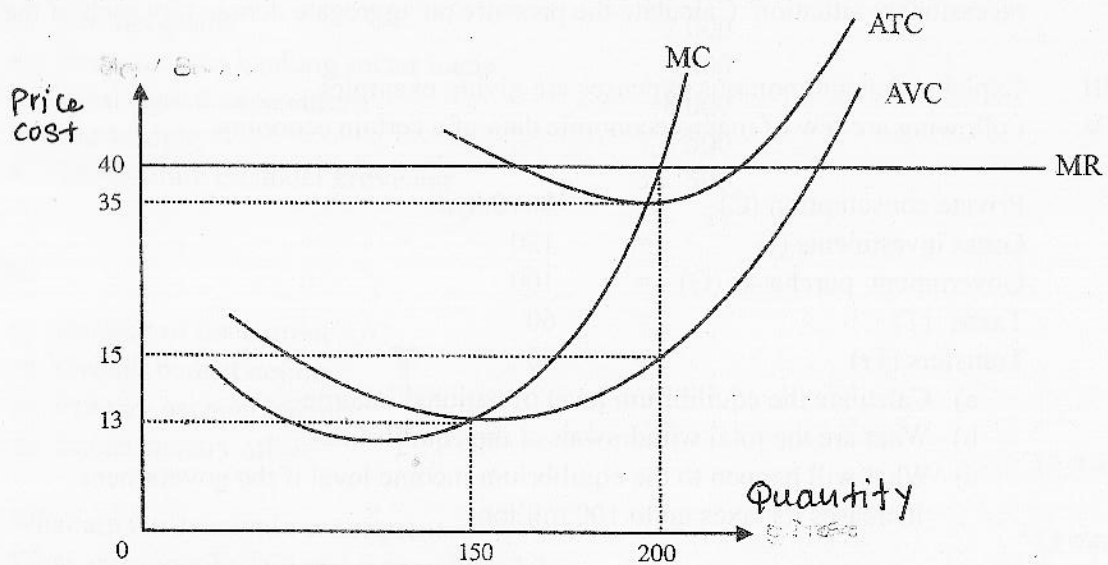
3)

- I. What are the uses of cross price elasticity of demand? (3 marks)
- II. What conditions should be satisfied to create a supply in the market (3 marks)
- III. What is meant by "prices of related goods" as a determinant of demand (2 marks)
- IV. Explain with the help of a suitable diagram, how a production subsidy affect the social welfare (4 marks)
- V. Demand and supply equation of a product in a competitive market are given below
 $Q_d = 100 - 2p$ $Q_s = -40 + 2p$
 - a) What is the economic surplus at the equilibrium? (2 marks)
 - b) The quantity demanded increase by 40 units at each price. What is the economic surplus at the new equilibrium price? (4 marks)
 - c) Calculate the supply elasticity at the equilibrium (2 marks)

4)

- I. Explain why the economic profit become negative even though the accounting profit become positive (3 marks)
- II. Explain briefly,
 - a) Transfer earnings
 - b) Product differentiation
 - c) Barriers to entry(6 marks)
- III. Explain how the demand for factors of production change from the demand for a consumer good. (3 marks)
- IV. Explain how a productive firm decides its equilibrium factor employment level. With a suitable diagram (4 marks)

V. Short run information of a perfectly competitive firm is given below



Calculate

- Economic profit
- Total fixed cost
- Producer surplus
- Minimum price expected by the producer.

(4 marks)

5)

I. Following are some national accounting data related to a hypothetical economy. (Rupees in million)

Employee compensation	12,000
Private consumption	40,000
Net exports	-5,000
Private income account of BOP	-2,000
Government purchases	25,000
Gross capital formation	15,000
Changes in stocks	6,000
Taxes on good and services	3,500
Subsidies on good and services	500
Secondary income account of BOP	4,000
Other taxes less subsidies on production	2,000

Calculate.

- Disposable gross national income (2 marks)
- Gross operating surplus (2 marks)
- Current account balance of BOP (2 marks)



- II. Marginal propensity to consume of a certain economy is 0.6. The government decides either to cut off taxes by 500 million or to increase government expenditure by 500 million to face a recessionary situation. Calculate the pressure on aggregate demand by each of the above actions. (4 marks)
- III. Explain what autonomous expenses are giving examples (4 marks)
- IV. Following are few of macro economic data of a certain economy.

Private consumption (C)	=	80+0.8yd
Gross investments (I)	=	120
Government purchases (G)	=	100
Taxes (T)	=	60
Transfers (Tr)	=	20

- a) Calculate the equilibrium level of national income (2 marks)
- b) What are the total withdrawals at the equilibrium (2 marks)
- c) What will happen to the equilibrium income level if the government increases its taxes up to 100 million (2 marks)

Part B

- select at least two questions

6)

- I. What are the determinants of consolidated broad money supply? (3 marks)
- II. Discuss the behavior of pressure groups of the cost push inflation. (3 marks)
- III.
- a) What do you mean by inflation expectation? (1 mark)
- b) What is the importance of measuring inflation expectation? (3 marks)
- IV. A commercial banking system consist of demand deposits of general public worth Rs.4000 million. The money supply of the economy is Rs. 5000 million. Statutory reserve ratio is 20%.
- a) What is the amount of loans supplied by the commercial banks? (1 mark)
- b) If the general public withdraw Rs. 200 million cash from system, calculate the deposits of the commercial banking system and the new money supply after all its adjustments. (2 marks)
- V. State the importance of producers' price index. (3 marks)
- VI. Explain how the problems of barter systems were removed with the use of money, with reference to the functions of money (4 marks)

7)

- I. What is meant by government failure? (2 marks)
- II. What is meant by Beyoncé coefficient of tax revenue? What are the reasons for the unfavorable tax revenue assessment of Sri Lanka? (4 marks)
- III. Some data related to government budget are given as follows? (Rs.in million)

• Tax revenue	50 000
• Non tax revenue	10 000
• Total recurrent expenditure	55 000

• Foreign loans	1 000
• Foreign grants	2 000
• Domestic non banking sector loans	800
• Total capital expenditure	8 000
• Net lending	1 500
• Expenditure on under provision	500

Calculate

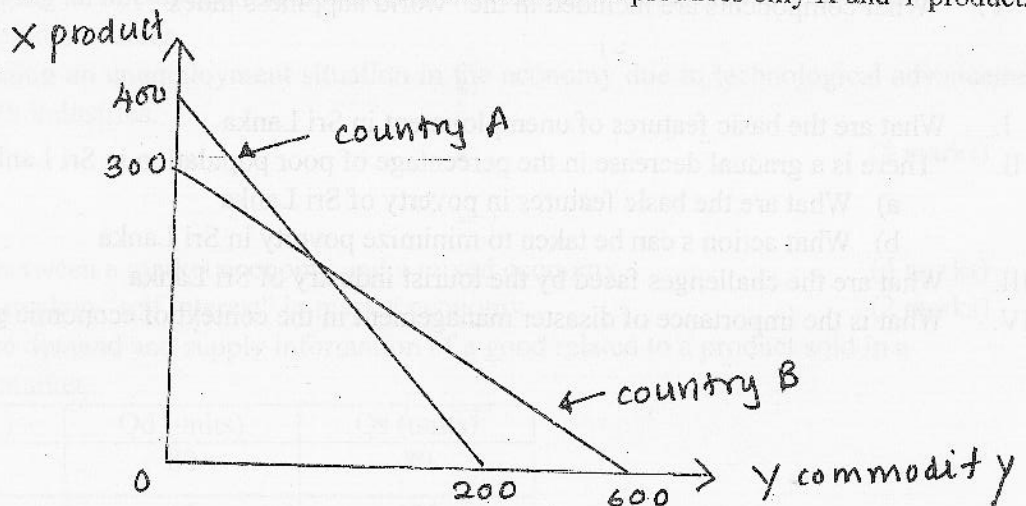
- Balance of the current A/C
 - Overall budget deficit
 - Primary account balance
 - Expansionary effect
- (4 marks)

IV. What are the economic consequences (3 marks)

V. What are meant by "Global externalities"? (2 marks)

VI. Explain using a unit tax with a suitable graph how an external cost is included in market (3 marks)

08) I. the following diagram shows the PPC of A and B countries which produces only X and Y products



- Justify your answer related to the products that should be specialized by each country (2 marks)
- State the rate of exchange between the two countries in beneficial trade (2 marks)

II. what are the sources of comparative advantage in international trade (2 marks)

III. what are the sources of advantage of competition (3 marks)

IV. what are the instances that the effective rate of protection can be increased (3 marks)

- V. (a) what are the tasks of world trade organization (2 marks)
 (b) what is the difference between the 'common market' and 'economic and financial companies' as two systems of economic integration (2 marks)
- VI. (a) state the main characteristics of the export composition of Sri Lanka (2marks)
 (b) what is the difference between appreciation of exchange rates and increasing the exchange rates (2 marks)

09)

- I. Explain the following concepts
 a) Economic growth
 b) Economic development
 c) Development (5 marks)
- II. What are the challenges faced by Sri Lanka in attaining a higher sustainable economic development? (4 marks)
- III. Discuss the trends of human development in Sri Lanka. (4 marks)
- IV. "There are merits and demerits of Economic growth" Discuss (4 marks)
- V. What components are included in the "world happiness index" ? (3 marks)

10)

- I. What are the basic features of unemployment in Sri Lanka (5 marks)
- II. "There is a gradual decrease in the percentage of poor population in Sri Lanka."
 a) What are the basic features in poverty of Sri Lanka (5 marks)
 b) What actions can be taken to minimize poverty in Sri Lanka (4 marks)
- III. What are the challenges faced by the tourist industry of Sri Lanka (4 marks)
- IV. What is the importance of disaster management in the context of economic growth of Sri Lanka (2 marks)