

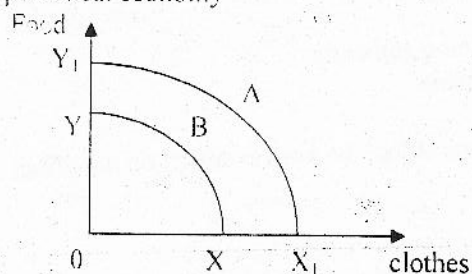
De Mazenod College- Kandana
G.C.E.(A/L) Examination 2017
Economics I
Grade 13- 1st Term Evaluation

1.12.2016

Duration: 2 hours

- Select the most appropriate answer and write the number in brackets

- (1) Following diagram shows how the production level changed from A to B after the economic growth process of a certain hypothetical economy



Which can be the reason for such a change?

1. Skilled labourers of both industries migrating to other countries
 2. Dropping of labour productivity in both industries
 3. Decrease of aggregate demand of both industries
 4. Removing of production subsidies by the government
 5. Privatization of government assets
- (.....)
- (2) Which of the following factors could affect to decrease the opportunity cost of allocating resources for consumption activities?
1. Existing of inflation in a constant level
 2. Decrease of interest rates
 3. People moving towards higher income levels
 4. Decreasing the tax rates by the government
 5. Expansion of money supply by the central bank
- (.....)
- (3) Labour is known as a quick destroying factor because
1. The labour productivity decreases as the labourer step into old age
 2. The time that the labourers can be employed is limited
 3. The labour gets depreciated with the time factor
 4. There are age limits for labour force
 5. The bargaining power of labour is weak
- (.....)
- (4) The main determinant of production distribution in a free market economy is
1. Price signals of commodity market
 2. Price signals of factor market
 3. Price signals of both commodity market and factor market
 4. Direct intervention of government on income distribution
 5. The strikes organized by the labourers to increase the wages
- (.....)
- (5) All the factors except one of the following affect the decline of a planned economic system. Select that factor which does not affect
1. Existing of mismatches between market demand and market supply
 2. Decline of quality of the products
 3. Non existence of sufficient incentives
 4. Environmental degradation
 5. Minimum distribution disparities
- (.....)



- (6) Which of the following can be considered as a benefit of a planned economy theoretically?
1. Coming into decisions based on social cost and benefits
 2. Showing decreasing returns to scale in production
 3. Government always maintain a balanced budget
 4. Production pattern shows the consumer preference
 5. Existence of a perfect substitutability between capital and labour
- (.....)

- (7) One of the main component in a free market economy is
1. Higher government intervention
 2. Public property ownership
 3. Private ownership
 4. Wages and prices are determined by a central planning authority
 5. Combination of both private and state entrepreneurship
- (.....)

- (8) Market economic system is established based on four factors. Select the answer which do not affect
1. Private property
 2. Private enterprise
 3. Self interest
 4. Competitive propoganda
 5. Freedom of choice
- (.....)

- (9) The price elasticity of demand for ball point pen is -3.0 . when the price of a pen becomes Rs.25 a demand of 300 units exist. If the price decreased to Rs.20, what quantity would be demanded?
1. 900 2. 600 3. 180 4. 560 5. 480
- (.....)

- (10) The demand schedule and the before and after supply schedules of a commodity when a unit tax is imposed is given below.

Price Rs.	Quantity demanded	Quantity supplied before tax	Quantity supplied after tax
12	50	20	0
13	50	30	10
14	50	40	20
15	50	50	30
16	50	60	40

What is the amount of the tax imposed on the commodity?

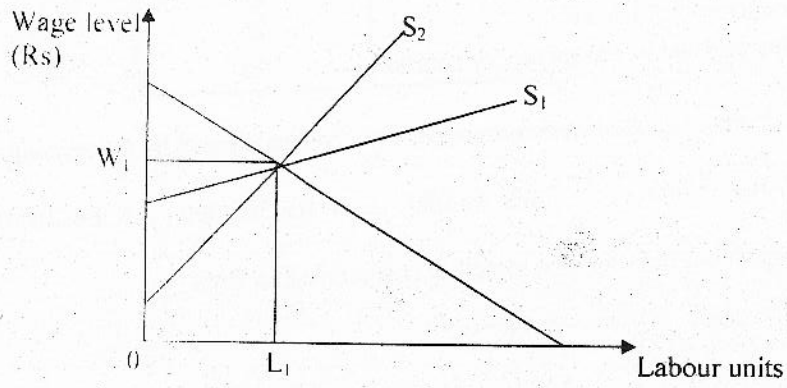
1. Rs. 1 2. Rs. 2 3. Rs. 3 4. Rs. 4 5. Rs. 5
- (.....)

- (11) A certain product is sold only at the prevailing market price. If the price increased even by a small percentage, the quantity demanded decrease to zero. The market demand for that commodity is
1. Unitary elastic 2. Elastic 3. Inelastic 4. Perfect inelastic 5. Perfect elastic
- (.....)

- (12) Which of the following should exist to ensure the law of demand under the income effect of price decrease of the concerned product?
1. Demand curve should be a straight line with a negative slope
 2. Nominal income should be unchanged
 3. Income elasticity of demand should be positive
 4. Purchasing power should increase as the nominal income is constant
 5. Positive substitute effect should be more powerful than the negative income effect
- (.....)

- (13) The straight line demand equation of a certain commodity is given as $Q_d = 500 - 5P$ and q . What is the quantity demanded of this product when the demand elasticity takes perfect 1?
 1. 200 2. 250 3. 300 4. 350 5. 400 (.....)
- (14) Assume that the supply equation of a given commodity is $Q_s = 100 + 10P$. the supply equation of this product when a unit tax of Rs.5 is imposed
 1. $Q_s = 100 + 5P$ 4. $Q_s = 100 + 50P$
 2. $Q_s = 100 + 15P$ 5. $Q_s = 500 + 50P$
 3. $Q_s = 50 + 10P$ (.....)
- (15) A certain product has an inverse relationship between price and quantity in its demand and a positive relationship between price and quantity in supply. 5000 units of this product is sold at Rs.50 at a certain instance and in another instance 8000 units are sold at Rs. 60. This change can happen due to
 1. Increase of price of a complement good
 2. Increase of price of a substitute good
 3. Imposing a sales tax on this commodity
 4. Increasing the productivity of inputs
 5. Increasing the price of raw material (.....)

(16) The following diagram represents the labour market situation related to a certain occupation



What would be the effect on transfer earning and economic rent when the market supply curve shifts from S_1 to S_2

	Transfer earnings	Economic rent
1.	Increase	Increase
2.	Unchanged	Decrease
3.	Increase	Decrease
4.	Decrease	Increase
5.	Decrease	Unchanged

(.....)

- (17) The producer surplus when the market supply curve is given as $Q_s = 100 + 20P$ and the market price is Rs.10
 1. Rs. 500 2. Rs. 1000 3. Rs. 1500 4. Rs. 2000 5. Rs. 2500 (.....)

- (18) Income elasticity of demand for commodity X takes a negative value and the cross elasticity of demand between X and Y commodities takes a value. Accordingly, which of the following is true regarding X?
 1. X is a normal good and it is a substitute for Y
 2. X is a normal good and it is a complement for Y
 3. X is an inferior good and it is a substitute for Y
 4. X is an inferior good and it is a complement for Y
 5. X is a normal good and Y is an inferior good (.....)

(19) Demand and supply equations for a product sold in a competitive market are given below

$$Q_d = 600 - 10P \quad Q_s = -100 + 10P$$

If a Rs.10 unit tax is charged from producers of this product, what is the tax revenue of the government?

1. Rs. 1000 2. Rs. 2000 3. Rs. 3000 4. Rs. 4000 5. Rs. 5000 (.....)

(20) A production firm has to increase the daily wages of a labourer from Rs. 800 to Rs.850, when the labour force of the firm is increased from 100 to 101 per day. Accordingly, what is the marginal cost of labour per day?

1. Rs. 50 2. Rs. 850 3. Rs. 5850 4. Rs. 80 000 5. Rs. 85 850 (.....)

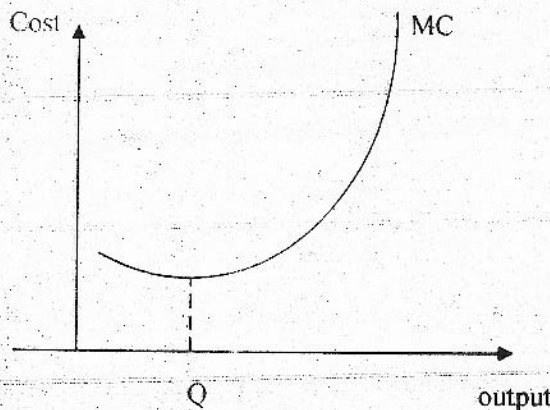
(21) The annual production cost of a firm is calculated by an economist and presented as follows

Item	Cost (rs thousand)
Wages and salaries	150
Opportunity cost of time of owner	40
Cost of purchasing material	80
Rent	30
Marketing cost	20
Interest payments for bank loans	25
Interest income forgone by the owner for capital	15

By how much the cost calculated by the economist exceeds the cost calculated by the accountant?

1. Rs. 30 500 2. Rs. 55 000 3. Rs. 85 000 4. Rs. 305 000 5. Rs. 360 000 (.....)

(22) The following diagram shows the short run marginal cost curve of a firm



Which of the following could be the reason for upward slope of the curve when the output is increased more than Q?

1. Obstacles for entry 4. Law of Diminishing returns
 2. Diseconomies-of scale 5. Marginal utility
 3. Inelastic supply (.....)

(23) Information related to a short run production process of a certain product is given below

Output	Total cost	Marginal cost
1	200	600
5	420	220



When the firm produces 5 units

	Average fixed cost	Average variable cost
1.	28	56
2.	40	44
3.	84	12
4.	60	40
5.	12	30

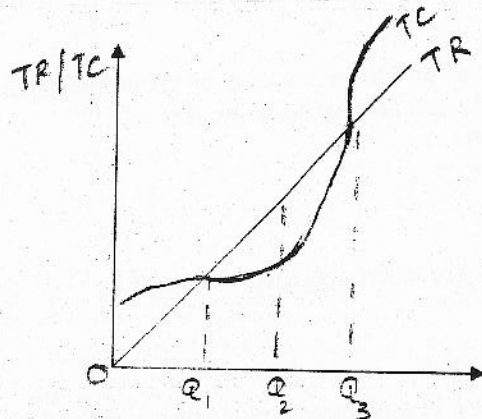
(.....)

(24) A firm was obtaining a 40 unit productivity when 4 units of labour and 10 units of capital is blended. If the marginal productivity increased by 15 units as an extra labourer is recruited, the increase of average productivity is

1. 5
2. 10
3. 15
4. 12.5
5. 11

(.....)

(25) The following diagram shows the behavior of total revenue and total cost of a perfectly competitive production firm.



Where can the firms marginal revenue (MR) can equal the marginal cost (MC) as the firm maximized the economic profits?

1. At Q_1 output level
2. At Q_2 output level
3. At Q_3 output level
4. Between the range Q_1 and Q_2
5. Between the range Q_2 and Q_3

(.....)

(26) What is the reason for earning only normal profits in the long run by a perfect competitive firm?

1. Facing a given price by the firm
2. Problem of obtaining market information
3. Entering of new firms to the industry through free entry
4. Producing homogeneous products
5. Non existence of market propiganda

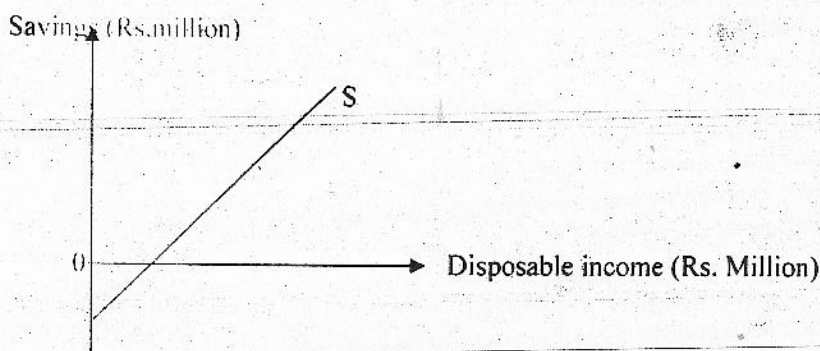
(.....)

(27) The vertical distance between the total cost curve (TC) and total-variable cost curve (TVC) is

1. Decreased when output decrease
2. Increased when output decrease
3. Equals to marginal cost (MC)
4. Equals to total fixed cost (TFC)
5. Equals to average fixed cost (AFC)

(.....)

- (28) Which of the following costs takes a zero value if a firm do not engage production in the short run?
 1. Opportunity cost
 2. Total Variable cost
 3. Total fixed cost
 4. Average total cost
 5. Total cost
 (.....)
- (29) The aggregate consumption function of a simple economy is $C = 250 + 0.75 Y$ and investments $I = 450$. The equilibrium output level of this economy is
 1. 1800
 2. 2800
 3. 3600
 4. 7200
 5. 9000
 (.....)
- (30) The increase of which factor of the following would increase the investment multiplier?
 1. Money supply
 2. Equilibrium output
 3. Personal income tax rate
 4. Marginal propensity to consume
 5. Statutory reserve ratio
 (.....)
- (31) In the contraction period of a business cycle
 1. Output decreases and the investments increase
 2. Output decrease and unemployment increase
 3. Output increase and unemployment decrease
 4. Output increase and unemployment decrease
 5. Both output and unemployment increase
 (.....)
- (32) The increase of output level of a closed economy, due to an increase of government purchases by Rs.80 where the marginal propensity to save is 0.25 and only autonomous taxes exist is
 1. Rs.80billion
 2. Rs. 80.25 billion
 3. Rs. 160 billion
 4. Rs. 240 billion
 5. Rs. 320 billion
 (.....)
- (33) Which of the following will give the greatest increase in the aggregate demand?
 1. Increase of taxes by Rs.100 million
 2. Decrease of taxes by Rs.100 million
 3. Increase of government purchases by Rs.100 million
 4. Increase of taxes by Rs.100 million and increase of government purchases by Rs. 100 million
 5. Decrease of taxes by Rs.100 million and increase of government purchases by Rs.100 million
 (.....)
- (34) The aggregate savings function of a certain economy is given by the diagram. What is the effect on the marginal propensity to save (MPS) and average propensity to save (APS) when the disposable income is increase?



	MPS	APS
1.	Unchanged	Increase
2.	Decrease	Increase
3.	Increase	Decrease
4.	Increase	Increase
5.	unchanged	decrease

- (35) Which of the following is included in personal income but excluded from national income?
1. Company dividends
 2. Transfer payments
 3. Social protection contributions
 4. Undistributed profits
 5. Net interest
- (.....)
- (36) The expenses that should be added to calculate the gross domestic product to the expenditure approach is
1. Wages, profits, government purchases, net exports
 2. Wages, rent, interest and profits
 3. Consumption, investments, government purchases and exports
 4. Consumption, investments, government purchases, net exports
 5. Consumption, government purchases, taxes and interest
- (.....)
- (37) Select the economic activities taken into consideration when calculating the national accounts
- A – breeding of fish in a tank
B - forestry cultivated by man
C – learning and leisure
D – collecting water in a tank and distributing for agriculture
1. A and B 2. C and D 3. A and C 4. B and D 5. A and D
- (.....)
- (38) Which of the following are not considered as economic activities which are taken place in a household unit?
1. Hunting and fishing for own consumption
 2. Weaving of clothes and supplying of water
 3. Taking care of old aged ones in the family
 4. Weaving of clothes and sewing clothes
 5. Preparing fish and meat for preservation
- (.....)
- (39) Identify the collective government consumption expenditure out of the following government expenses
1. Education
 2. Health
 3. Security expenses
 4. social protection expenses
 5. Expenses on sports and leisure
- (.....)
- (40) A multiple counting error would occur if the value of both capital goods produced and the goods that are produced using those capital goods are included in national accounts. This problem can be avoided
1. By deducting the capital goods consumption (depreciation)
 2. By considering only the products produced using the capital goods without taking capital goods value
 3. By considering only the capital goods excluding the other products
 4. By including the depreciated value of capital goods
 5. By including only the value of intermediate goods
- (.....)
- (41) Supply side factor that would affect the price inflation is
1. Increase of money supply
 2. Increase of prices of inputs
 3. Increase of gross domestic capital formation
 4. Increase of government purchases
 5. Increase of net exports
- (.....)
- (42) Consider that the money supply is Rs.5000 billion, velocity of money circulation is 10, real national product is Rs.400 billion of a certain economy. Calculate the price level of this economy
1. 40 2. 50 3. 125 4. 400 5. 500
- (.....)

- (43) Which of the following causes the demand pull inflation?
1. Rapid increase of mineral oil prices
 2. Gaining of higher wages by labour unions
 3. Purchasing of government securities by the central bank in the open market
 4. Selling of government securities by the central bank in the open market
 5. Decreasing the purchases of goods and services by the government
- (.....)

(44) Assume that the total output of a certain economy increases by 2% and the stock of money increases by 5%. If the velocity of money circulation remain unchanged, what would be the increase of price level and nominal value of total output to the nearest value?

	Increase of Price level	Increase of Nominal value of total output
1..	2%	5%
2.	3%	5%
3.	2%	7%
4.	2.5%	10%
5.	3%	7%

(.....)

- (45) Disinflation means
1. Decrease of general price levels
 2. Negative inflation
 3. Decrease of prices of necessary goods
 4. Decrease of inflation rate
 5. A method taken to decrease the value of a certain currency unit against another
- (.....)

- (46) Which of the following is not a component of M_{2b} monetary aggregate?
1. Currency held by public
 2. Demand deposits of public
 3. Savings and time deposits held by the public
 4. Residents deposits in foreign currency banking units
 5. Personal savings in the licentiate specialized banks
- (.....)

- (47) Which of the following task of money related to the speculative motive of money demand?
- | | |
|-----------------------|--------------------------------|
| 1. Medium of exchange | 4. System of deferred payments |
| 2. Store of value | 5. Measure of value |
| 3. Unit of account | |
- (.....)

- (48) Which of the following factors is not a determinant of high powered money?
1. Credit granted to the commercial banks by the central bank
 2. Net credit granted to the government by the central bank
 3. Net foreign assets of the central bank
 4. Net other assets of the central bank
 5. Net credit granted to the commercial banks by the central bank
- (.....)

- (49) Obtaining of loans and repayments are much easier due to the use of money. This task of money is known as
- | | |
|-----------------------------|-----------------------|
| 1. Store of value | 4. Measure of value |
| 2. System deferred payments | 5. medium of exchange |
| 3. Unit of account | |
- (.....)

- (50) Select the incorrect statement
1. Money demand for speculative motive is inversely related to the interest rates
 2. Currency held by commercial banks and central bank is not a part of money supply
 3. Money supply of a banking system is several times of base money
 4. If frequent receipts of money takes place , transaction motive of demand for money will decrease
 5. Liquidity preference is the demand for money exist for increasing money supply
- (.....)

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Economics II
Grade 13- 1st Term Evaluation 2016 November

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Select two questions from part A and two questions from part B and answer five questions altogether

PART - A

- (01) (i) state the difference between economic and non economic resources (2 marks)
 (ii) 'the problem of scarcity can be eradicated by economic growth' . do you agree? Explain (4 marks)
 (iii) what are the instances that the opportunity cost of economic goods as well as economic Resources become zero? (4marks)
 (iv) what are the main tasks of an entrepreneur? (4 marks)
 (v) (a) what are social market economies? (3 marks)
 (b) explain how a market economy solve basic economic problems (4 marks)
- (02) (i) show the situation of increasing opportunity cost by a PPC diagram (4 marks)
 (ii) how can the following concepts be shown in PPC diagrams?
 a) Economic growth process
 b) Economic decline
 c) Unemployment
 d) The problem of resource scarcity (4 marks)
 (iii) what are the conditions that should be fulfilled to have efficient resource utilization (4 marks)
 (iv) state how the government of Sri Lanka intervenes to solve the problem of for whom to Produce? (4 marks)
 (v) explain the difference between the shifting of PPC to left and a point inside the PPC (4 marks)
- (03) (i) state the factors that affect the demand curve to shift to right (3 marks)
 (ii) why does the demand curve slopes downwards and the supply curve shifts upwards (6 marks)
 (iii) how do you identify whether a commodity which has a downward sloping demand curve Is a normal good ? or an inferior good? (3 marks)
 (iv) what are the special instances that demand behave against the law of demand? (3 marks)
 (v) define market disequilibrium. Explain with a suitable diagram how a market disequilibrium status come back to the equilibrium status again (5 marks)
- (04) the demand and supply conditions of a certain commodity are given below

Price	Quantity demanded	Quantity supplied
30	70	10
40	60	30

- (i) derive the demand and supply equations (4 marks)
 (ii) find the market equilibrium price and quantity (2 marks)
 (iii) calculate the demand elasticity and supply elasticity at Rs.30 (4 marks)
 (iv) calculate the consumer and producer surplus at the equilibrium (4 marks)
 (v) assume that the government imposes a Rs.6 unit tax on this commodity. Derive the supply equation after tax (2 marks)
 (vi) find the new equilibrium quantity and price after tax (2 marks)
 (vii) what is the tax incidence on consumer and producer? (2 marks)

PART - B

- (05) (i) name the two main markets identified in economics (2 marks)
 (ii) state the difference between direct cost and indirect cost giving one example for each (4 marks)
 (iii) define 'normal profits'. State why normal profits are included when calculating the total Production cost of a firm? (4 marks)
 (iv) state two similarities and two dissimilarities between perfect competition and monopolistic Competition (4 marks)
 (v) following data related to a perfect competitive firm are given below. (assume that the firm is at the profit maximizing level)

average fixed cost	Rs.50
average variable cost	Rs.70
units produced	1200
price of a unit	Rs.100

- a) Calculate the economic profit or loss (2 marks)
 b) How much is the marginal cost (2 marks)
 c) Should the firm continue its production? Or should close? Explain (2 marks)

- (06) (i) give two examples for each informal economic activities and hidden economic activities (4 marks)
 (ii) what is meant by multiple counting error? What are the ways of avoiding this error? (4 marks)
 (iii) what are the productive economic activities which are not included in national accounts? (4 marks)

(iv) fill in the blanks

- a) Gross domestic product = gross national product -
 b) Gross national product to the market price = net national product to the factor cost + +
 c) Gross domestic product to the fixed price = $\frac{\text{Gross domestic product to the market price}}{\dots} \times 100$

d) Gross domestic product to the market price = consumer goods + investment good + (4 marks)

- (v) a certain economy achieved a 12% increase in the gross domestic product to the market price during a certain year. Does it show a 12% economic growth in that year? Give reasons for your answer (4 marks)

(07) the following details related to a macro economy are provided to you

Private consumption	$C = 500 + 0.6Y_d$	taxes	$T_x = 200$
Investments	$I = 320$	Government consumption	$G = 270$
Transfers	$Tr = 50$	Disposale income	$Y_d = (Y - NT)$

- (i) calculate the aggregate demand and savings function (6 marks)
 (ii) construct the withdrawals equation (4 marks)
 (iii) calculate the equilibrium national income using aggregate income –expenditure approach and withdrawals –injections approach (8 marks)
 (iv) what is meant by withdrawals and injections-related to an open economy (2 marks)

- (08) (i) explain the difference between absolute price, comparative price and general price level (3 marks)
- (ii) what are the facts that can be put forward to prove that the Colombo Consumer Price Index (New) is more suitable than the whole sale price Index to measure the standard of living (3 marks)
- (iii) What is the effect of inflation on the following parties
a) Investors
b) Fixed income earners
c) Fixed depositors
d) Lenders of money (4 marks)
- (iv) what are the weaknesses existed in the barter economy (2 marks)
- (v) explain the limits that the current notes and coins have related to store of value (2 marks)
- (vi) what are the components related to narrow money supply, broad money supply, Consolidated broad money supply and monetary survey? (6 marks)

