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21 E I

**Second Term Test - Grade 12 - 2020**

Index No : ..... **Economics I** **Two Hours**

**Important**

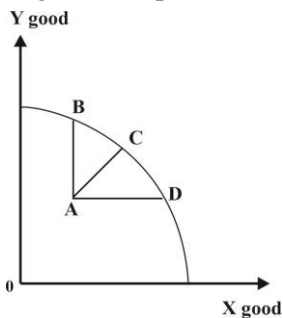
- ◆ Answer all the questions.
- ◆ Select the correct or most suitable answer. (A supplementary paper is provided to mark the correct answer)

01. This is not an example for macro-economics.
1. Aggregate output level.
  2. Market function of a business firm.
  3. Economic fluctuations.
  4. Unemployment level.
  5. Economic recession.
02. The main function of an economy is,
1. Planning and implementing of production process.
  2. Creating a flow of goods and services to satisfy human wants.
  3. Minimize the disparity in come distribution.
  4. Maintaining economic stability.
  5. Producing goods and services at lower resource cost.
03. Anything which brings a positive satisfaction for human being is called.
1. Production resources.
  2. Economic resource.
  3. A good.
  4. An economic good.
  5. A production
04. A reason to have a price for economic resources is,
1. Having an opportunity cost.
  2. The ability of employing production.
  3. Having a scarcity.
  4. The difficulty of supply.
  5. The availability of alternative uses.
05. Which of the following that cannot be considered as a production factor of a printing shop?
1. Printing machines
  2. Unused paint and papers.
  3. The printing shop
  4. The Service time of the printing manager
  5. The service efficiency.
06. Which of the following is not a natural resource?
1. Deduru Oya reservoir
  2. Sinharaja forest
  3. Wild animals.
  4. Samanala mountain
  5. Mahaweli river

07. Select the statement related to the improvement of factor productivity.
1. The positive relationship between inputs and outputs.
  2. Having a large output utilizing less inputs.
  3. The total output of a certain production process.
  4. The contribution of inputs towards outputs.
  5. The negative relationship between inputs and outputs.
08. As the main component of fixed capital, real assets that the production is supported can be considered. Which of the following would be an intellectual property ?
1. Mamoties and knives.
  2. Computer
  3. Coal power station
  4. Computer software
  5. Port and airport.
09. Imperfect utilization of resources in production or employing resources in a way which does not provide the maximum efficiency is called as.
1. Productive efficiency
  2. Unemployment
  3. Full employment
  4. Underemployment
  5. Misuse of resources
10. The problem of resource allocation is the,
1. Discrimination of income distribution.
  2. Requirement of efficient resource utilization.
  3. Problem of resource scarcity.
  4. Decision made on what to produce.
  5. Misuse of resources.
11. Select the incorrect statement.
1. According to the way that resources are utilized at present, the future resource endowment can be determined.
  2. There is no opportunity to reach an accelerated economic growth for an economy other than sacrificing the present consumption.
  3. The production capacity of the economy is changed due to change in resource accumulation and resource productivity.
  4. The Production possibility of an economy is determined according to the resource endowment and resource productivity.
  5. With the expansion of resource endowment, production capacity is expanded and the production possibility boundary shifts rightward.
12. Certain statements related to different economic systems are given below.
- A - Private property ownership.  
 B - Works on social welfare  
 C - Market competition.  
 D - Using planning mechanism in solving basic economic Problems.  
 E - Works on public welfare.
- Select the answer that only the command economic features are discussed.
1. A,B,C
  2. B,C,E
  3. A,B,D
  4. B,D,E
  5. B,C,D
13. The problem of "to whom to produce" is solved by the free market economic system,
1. By planning mechanism.
  2. According to the function of factor market.
  3. Based on household income
  4. According to the price determined on goods and services.
  5. Based on relative profit.

14. Which of the following would be irrelevant for the social market economic system?
1. Norway
  2. German
  3. Hungarian
  4. Finland
  5. Sweden
15. 'Non - government organizations present a significant role in current economies' Which of the following is irrelevant for the functions of non government organizations.
1. Eradicating poverty.
  2. Environmental Conservation.
  3. Protecting human rights.
  4. Working on the social welfare of refugees faced on natural disasters.
  5. Assessing industries and businessmen.

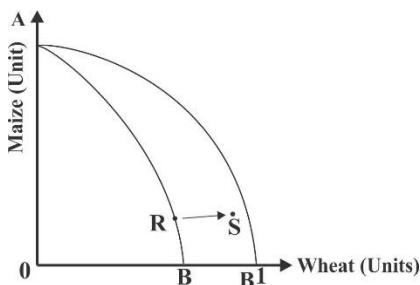
16. Following is a production possibility curve which shows the product combinations of an economy that only two goods are produced as X and Y.



When moving point 'A' towards the boundary, although the opportunity cost is zero, the production of both X and Y are expanded when,

1. Moving point A towards B.
  2. Moving point A towards B and D.
  3. Moving point A towards C.
  4. Moving point A towards C crossing B.
  5. Moving point A towards D.
17. A basic economic question which is common for each of the economic system is,
1. Utilizing a bulk of money on a few of commodities.
  2. Over utilization of scarce natural sources.
  3. Environment pollution.
  4. The resource scarcities is a barrier in fulfilling unlimited wants.
  5. Improving the problem of poverty.

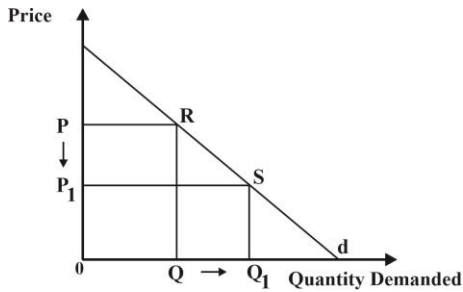
18. A production possibility curve of an economy that maize and wheat are produced is given below.



The given production possibility curve shows,

1. Although the productivity of wheat is expanded there is no effect towards the increase in maize production.
  2. An unemployment is created due to the technical improvement in wheat production but no effect on maize production.
  3. An inefficiency is created in wheat and maize productions.
  4. Increase in the production of both industries.
  5. Increase in wheat production due to the innovation of a new seed that a higher harvest is brought.
19. Select the incorrect statement.
1. Employing all the available resources of an economy productively in the production process is the full employment.
  2. Employing resources inefficiently with a less productivity is the underemployment.
  3. Decrease in production due to the lower demand for goods and services of the economy is the recession.
  4. The long term effect of economic depression is the recession.
  5. The persistent increase in real output is the economic growth.

20. The demand curve of X consumer is as follows.



To move from point R towards point S along the demand curve,

1. The consumer desire should be lower.
2. The price of substitute good should be lower.
3. The Input price should be lower.
4. Income should be increased.
5. Demand should be increased.

21. The demand and supply equations of a certain good in a complete market are given below.

$$Q_d = 20 - P$$

$$Q_s = -8 + 6P$$

The equilibrium price and quantity for this good are respectively.

- |    |              |
|----|--------------|
| 1. | Rs. 4 and 16 |
| 2. | Rs. 4 and 28 |
| 3. | Rs. 16 and 4 |
| 4. | Rs. 7 and 28 |
| 5. | Rs. 4 and 7  |

22. The related demand equation for the given demand schedule is,

Price (P)	Quantity Demanded (Qd)
15	100
25	60

- |                      |                       |                       |
|----------------------|-----------------------|-----------------------|
| 1. $Q_d = 4 - 160 P$ | 2. $Q_d = 160 - 40 P$ | 3. $Q_d = 160 - 10 P$ |
| 4. $Q_d = 160 - 4 P$ | 5. $Q_d = 40 - 4 P$   |                       |

23. A feature that cannot be seen in factor market is,

1. Factor services are exchanged.
2. Goods and services are supplied by firms.
3. Factor services are demanded by production firms.
4. Factor services are supplied to the production firms by households.
5. There is a derived demand for factor services.

24.  $Q_s = 4P$                        $Q_d = 120 - 6P$

Accordingly, economic surplus at the equilibrium is,

- |            |            |            |            |            |
|------------|------------|------------|------------|------------|
| 1. Rs. 192 | 2. Rs. 128 | 3. Rs. 480 | 4. Rs. 960 | 5. Rs. 384 |
|------------|------------|------------|------------|------------|

25. If the consumer expenditure on X good is increased by 8% due to increase in price of X good by 10%, the X good is having,

- |                                  |                                |                      |
|----------------------------------|--------------------------------|----------------------|
| 1. An elastic demand             | 2. an Inelastic demand.        | 3. A unitary demand. |
| 4. a perfectly inelastic demand. | 5. A perfectly elastic demand. |                      |

26. What do you know about the mid point of the demand curve which slopes downward from left to right?

	<b>elasticity co-efficiently</b>	<b>Revenue of the firm</b>
1.	Unitary	Increases
2.	Unitary	Maximized
3.	Zero	Decreases
4.	less than one	Decreases
5.	Greater than one	Maximized

27. Assume the demand elasticity of a certain good is -2 and the supply elasticity in 0.5. What would be the Qd and Qs for the given blanks respectively.

<b>P</b>	<b>Qd</b>	<b>Qs</b>
10	150	40
9	.....	.....

- 1. 120 and 140
- 2. 180 and 58
- 3. 142 and 120
- 4. 120 and 42
- 5. 180 and 38

28. Certain information of three goods are given below.

<b>Item</b>	<b>Percentage change in price</b>	<b>Percentage change in quality demanded.</b>
Vegetables	30	12
Cigarette	10	20
Shirts	00	10

According to the elasticity coefficients of above given items, the price demand elasticity of them respectively are,

- 1. Elastic , elastic and inelastic
- 2. Elastic, inelastic and Elastic
- 3. Inelastic, Elastic and inelastic
- 4. Unitary Elastic, Elastic and inelastic
- 5. Inelastic , elastic and Perfectly elastic

29. The reason to increase the quantity purchase in a price reduction of an inferior good is,

- 1. Negative substitute effect and zero income effect.
- 2. Negative substitute effect is more powerful than negative income effect.
- 3. Negative income effect is more powerful than negative substitute effect.
- 4. Negative substitute effect and positive income effect.
- 5. Negative income and substitute effects.

30. If the price of X good is reduced, the substitute effect is - 20 and income effect - 30. The X good is,

- 1. a normal good
- 2. Inferior good
- 3. Giffen good
- 4. Substitute good
- 5. Complement good

31. The supply function of X good is  $Q_s = - 40 + 20P$  . If Rs. 2.00 of unit tax is imposed on this good, what would be the price of X good that 40 units are supplied?

- 1. Rs 2
- 2. Rs 4
- 3. Rs 6
- 4. Rs 8
- 5. Rs 10

32. This is an economic effect due to the imposition of specific tax levied on essential goods.

- 1. Increase in economic surplus
- 2. Increase in consumer surplus.
- 3. Efficient resource allocation
- 4. Extra burden towards the society.
- 5. Excess investment to produce the good.

33. If it is assumed that, Rs. 20 of unit tax is imposed on the production of consumer good, which of the following combination would bring a higher burden on producer,

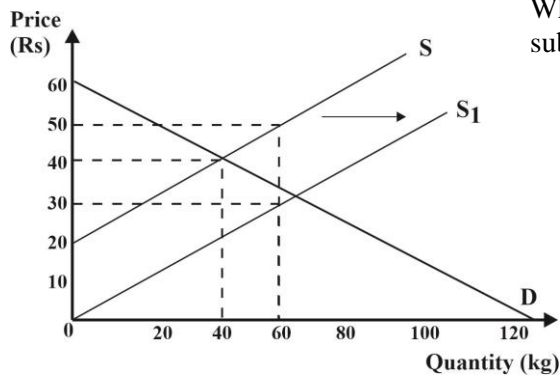
	Price elasticity of demand of the good	Price elasticity of supply of the good.
1.	elastic	elastic
2.	elastic	inelastic
3.	inelastic	elastic
4.	perfectly inelastic	perfectly inelastic
5.	Inelastic	perfectly elastic

34. The Demand and supply schedule for the domestic milk powder given as below.

Price of the 100g pack	Quantity demanded (Units)	Quantity supplied (Units)
80	500	900
70	600	800
60	700	700
50	800	600
40	900	500

To motivate the domestic producer, a unit subsidy is provided by the government and if the market price of a milk packet after subsidy is determined as Rs. 50, the subsidy amount is,

1. Rs. 4                      2. Rs. 5                      3. Rs. 10                      4. Rs. 15                      5. Rs. 20
35. Following curve illustrates the change in demand and supply conditions due to imposition of Rs. 20 of unit subsidy per kilogram in rice market.



What would be the producer revenue and producer surplus due to subsidy?

	Producer revenue (Rs.)	Producer Surplus
1.	3800	400
2.	2100	900
3.	3000	900
4.	1800	900
5.	1600	400

36. The demand and supply curves in the domestic potato market are as follow.

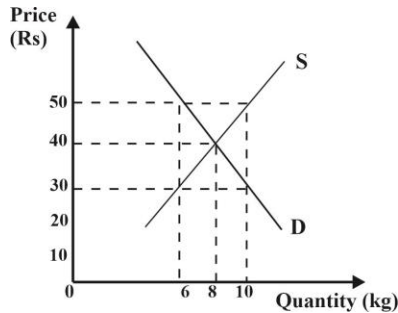
$$Q_d = 400 - 4P \quad Q_s = -100 + 6P$$

The world market price of one kilogramme of potato is Rs. 40.00 and with the entrance of international trade for the world price, the domestic quantity demanded and domestic quality supplied are respectively.

1. Units 240 , 240                      2. Units 240 , 140                      3. Units 100 , 140
4. Units 200 , 200                      5. Units 040 , 100
37. If effective minimum price policy is removed,
1. Price of the good is reduced.                      2. Price of the good is increased.
3. Producer surplus increases.                      4. Consumer Surplus reduces.
5. Sales quantity remains constant.

38. Due to the maximum price imposed by the government,
1. Excess supply is created.
  2. Goods are distributed through price mechanism.
  3. Producer surplus increases.
  4. Excess demand is created.
  5. Government expenditure increases.

39. The market demand and supply curves for agricultural goods are given bellow.



As a price supporting policy if the deficiency payment system is practiced to certify the Rs. 50 of minimum price introduced by the government, the price paid by consumer per unit and the unit cost of the government respectively are,

1. Rs. 30 and Rs. 20
  2. Rs. 30 and Rs. 200
  3. Rs. 50 and Rs. 4
  4. Rs. 30 and Rs. 50
  5. Rs. 40 and Rs. 30
40. one of the significant features of making an unstable income by farmers on agricultural products is,
1. Elastic demand and elastic supply.
  2. Elastic demand and inelastic supply.
  3. Inelastic demand and elastic supply.
  4. Perfectly elastic demand and perfectly elastic supply.
  5. Inelastic demand and inelastic supply.

41. When diminishing marginal returns is earned by a firm,
1. Total product reduces.
  2. Total cost reduces.
  3. Average fixed cost increases.
  4. Marginal product increases.
  5. Marginal cost increases.

42. The nature of output gained by the firm by changing all its inputs available is depicted by the,
1. Law of diminishing returns to scale.
  2. Law of decreases returns to scale.
  3. Law of returns to scale.
  4. Diseconomies of scale.
  5. Law of increasing returns to scale.

43. Which of the following would not be relevant for the implicit cost ?
1. Normal profit
  2. Super normal profit
  3. Forgone wage income.
  4. Economic depreciation
  5. Forgone interest income.

44. The costs made by a garment factory that 5 workers work within a year given below.
- |                               |                        |
|-------------------------------|------------------------|
| A - Saleries paid on workers. | B - Raw material cost. |
| C - Insurance premium.        | D - Marketing cost     |
| E - Interest payment          |                        |

The components related to fixed cost would be,

1. D and E
  2. C,D and E
  3. A and C
  4. C and E
  5. A,B and E
45. When the annual production cost is calculated by an economist, it was ensured that there was a considerable implicit cost in it. Which of the following would be accurate according to this?
1. Direct cost is greater than the indirect cost.
  2. Indirect cost is greater than the direct cost.
  3. Accounting profit is greater than the economic profit.
  4. Accounting cost is greater than the economic cost.
  5. Economic profit exceeds the accounting profit.

46. When the daily payment of a worker works in a short run firm, increases from Rs. 800 to Rs. 1000,

	<b>Marginal cost</b>	<b>Total fixed cost</b>	<b>Total cost</b>
1.	Increases	Remains constant	Increases
2.	Remains constant	Remains constant	Remains constant
3.	Increases	Increases	Increases
4.	Increases	Decreases	Increases
5.	Decreases	Increases	Decreases

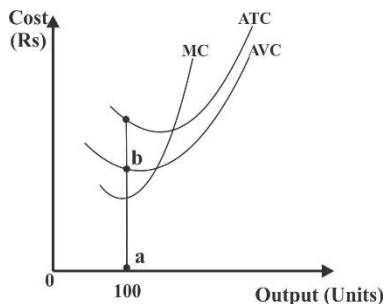
47. Certain information related to the total cost of X good in short run is given below.

<b>X good (units)</b>	0	1	2	3	4	5	6
<b>Total Cost (Rs)</b>	30	60	80	96	120	160	216

According to given information, what would be the average fixed cost (AFC) and Total Variable cost (TVC) at fifth output?

	<b>AFC (Rs)</b>	<b>TVC ( Rs )</b>
1.	30	40
2.	30	90
3.	6	130
4.	6	26
5.	5	32

48. Short run cost curves of a certain firm are as follows.



According to the diagram which cost is depicted by the AB gap at 100 outputs.

1. Marginal cost
2. Total variable cost
3. Average total cost
4. Average fixed cost
5. Average variable cost

49. By restricting the entrance of another firm, the ability of creating a natural monopoly by a firm is due to,

1. a large such cost.
2. the ownership of license
3. Economics of scale
4. Application of high technological utensils.
5. The owner of major inputs.

50. Identify the market structures that the market price can be determined without loosing the own market power entirely,

1. Monopoly and imperfect competition.
2. Monopoly and perfect competition
3. Imperfect competition and oligopoly
4. Monopoly and oligopoly
5. Imperfect competition and perfect competition





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**Provincial Department of Education - NWP**

**21 E II**

**Second Term Test - Grade 12 - 2020**

Index No : ..... **Economics II** **Three Hours**

**Important**  
♦ **Select at least two questions from each section and answer for five questions.**

**A part**

- 01). i. Explain production resources and economic resources separately. (4 Marks)
- ii. Identify the types of economic resources and classify them. (4 Marks)
- iii. Mention four global problems arising due to the over utilization of natural resources. (4 Marks)
- iv. Capital is created through investments. What are the main sources of investments? (4 Marks)
- v. What is meant by the productivity? What are the main determinants of productivity? (4 Marks)
  
- 02). i. Explain following economic events using relevant production possibilities curves.
  - a) Resource scarcity and alternative uses.
  - b) Productive efficiency
  - c) Economic growth of a country that more resources are utilized on consumption.
  - d) Facing an economy for an economic depression without decreasing resources. (4 Marks)
- ii. What are the main features of opportunity cost? (4 Marks)
- iii. What is meant by the consumer sovereignty ? (2 Marks)
- iv. How to play a significant role by the price in a market economy? (3 Marks)
- v. Identify three main drawbacks in a command economy. (3 Marks)
  
- 03). i. What are the three types of incentives related to different economic systems? (3 Marks)
- ii. Classify economic systems according to the 'resource ownership' and 'decision making and coordination mechanism' (4 Marks)
- iii. Discuss the difference between social market economy and the socialist market economy. (4 Marks)
- iv. What are the reasons for increasing opportunity cost and constant opportunity cost along a production possibilities curves. (4 Marks)

- v. Mention whether the followings can be agreed or disagreed. Mention the reason.
- In a free market economy, commodity prices are determined according to demand and supply forces mention the reason.
  - Production resources which are limited in supply are the non-priced resources or non-economic resources.
  - Among alternative production techniques, as one technique is selected and the production is continued, "how to produce" is the problem of production.
  - Due to decrease in resources accumulation, the production possibility is expanded and the production possibility curve shifts to left.
  - When marginal cost equals to marginal benefit ( $MC = MB$ ) productive efficiency is satisfied. (Marks 5)
- 04). i. What factors kept in constant in deriving the market supply curve? (4 Marks)
- ii. Mention four conditions in a market equilibrium. (4 Marks)
- iii. Demand and supply equations related to a certain market given below.
- $$Q_d = 600 - 10P \qquad Q_s = 10P$$
- Mark the derived equilibrium price and quantity in the demand and supply diagram. (2 Marks)
  - Calculate the consumer surplus and production surplus at the equilibrium. (2 Marks)
  - Calculate the price elasticity of demand at the equilibrium. (2 Marks)
  - What would be the excess demand price at 200 units? (2 Marks)
- iv. Identify two situations that market equilibrium price can be reduced and two situations that market equilibrium price can be increased due to shift in demand and supply curves in the market (4 Marks)
- 05). i. Mention whether the total revenue is increased, decreased or remained constant with the following changes.
- Price reduction in inelastic demand.
  - Price increase in elastic demand.
  - Price increase in inelastic demand.
  - Price reduction in non - essential good
  - Price reduction in unitary demand. (4 Marks 1 x 5)
- ii. Explain the effects of given events related to a competitive tea market using relevant diagrams. (10 Marks)
- Destroying a large amount of tea lands due to a germ.
  - Decreasing the consumer taste for tea.
  - Price reduction in coffee market.
  - Introducing advanced technology for tea production.
  - Neglecting the agricultural loans taken by tea state owners. (Marks 2 x 5)
- iii. Discuss the significance of the concept of supply elasticity for consumers, producers and economic policy markers. (5 Marks)

## Section B

- 06). The market demand and supply equations for a normal good are as follows.  
 $Q_d = 300 - 10p$                        $Q_s = -100 + 10P$
- i. Calculate the equilibrium price and quantity of this market. (2 Marks)
  - ii. Assume Rs. 4 of unit tax is levied on producer by the government.
    - a) What would be the consumer surplus due to tax. (2 Marks)
    - b) What would be the government revenue due to unit tax on domestic goods. (2 Marks)
    - c) Calculate the total tax amount paid by the consumer. (2 Marks)
  - iii. 'An inefficiency of resource allocation is lead by the government intervention towards the market through the taxation' Do you agree on this statement? Explain. (4 Marks)
  - iv. Using a relevant diagram explain the share of tax burden between consumer and producer due to unit tax imposed on buyers. (4 Marks)
  - v. What is meant by product rationing? What is aimed with product rationing? (4 Marks)
- 07). i. Briefly explain the direct price controlling methods of the government that free market is intervened. (4 Marks)
- ii. Explain the economic effects of effective maximum price using a relevant diagram. (4 Marks)
  - iii. Except maximum price ceiling, if a unit subsidy is given on each unit of output by the government, what would be the economic surplus after subsidy? (4 Marks)
  - iv. If a specific production subsidy is given on an agricultural product sold in the market and if the entire subsidy benefit is gained by the producer, what would be the nature of supply elasticity? Explain the answer using a relevant diagram. (3 Marks)
  - v. For the purpose of making the price of agricultural products stable, buffer stocks are maintained and distributed on due time. What are the benefits and losses of maintaining buffer stocks? (4 Marks)
- 08). In a competitive market the equilibrium market price and quantity of X good are respectively Rs. 40 and 80 units. When the price of the good is Rs. 30/= the maximum quantity demanded is 100 and the minimum supply quantity is 60. Assume, the government imposes Rs. 50 of minimum price on this good.
- i. Show the above information in a diagram. (5 Marks)
  - ii. Calculate the excess supply created in this economy due to the introduction of minimum price by the government. (4 Marks)
  - iii. What would be the government expenditure that has to be borne in purchasing the surplus to maintain the minimum price? (2 Marks)
  - iv. What would be the unit cost of the government in deficiency payment system except to purchasing the surplus by the government in certifying the minimum price policy. (2 Marks)
  - v. In certifying the minimum price, when two price supporting policies are implemented by the government draw the relevant diagram and illustrate this price supporting policy which brings the highest dead weight cost to the economy. (5 Marks)
  - vi. What are the measures that can be taken by the government to make the farmers income stable. (4 Marks)

- 09). i. Introduce short run production function and the long run production function. (4 Marks)
- ii. What are the reasons to decrease the long run average cost curve of a firm? (4 Marks)
- iii. Explain the behaviour of average total cost curve and average variable cost curve due to the expansion of production in a firm in short run. (4 Marks)
- iv. Certain information of a production firm related to production cost and revenue in a certain date is as follows.

Item	Rs
Revenue of the firm	24000
Wages and salaries	15000
Raw material cost	4000
Economic depreciation	200
Insurance premium	100
Rent payment	1000
Interest payment on bank loans	1200
Forgone interest on owner's capital	500
Forgone wages	800

According to given information calculate,

- a) Direct cost
- b) Total opportunity cost
- c) Accounting profit
- d) Economic profit (8 Marks)
- 10). i. Define the diminishing returns gained by a firm in short run. What are the assumptions related to that. (4 Marks)
- ii. Discuss the interrelationships along total product, average product and marginal product in short run production process. (4 Marks)
- iii. Explain, what is meant by economics of scale and diseconomies of scale. (4 Marks)
- iv. What are the factors for the variety of market structures? (4 Marks)
- v. What would be the significance of the demand curve of a firm in perfect competition compared with other market structures?  
What are the factors affecting that? (4 Marks)