

**General Certificate of Education (Adv. Level) Examination, August 2014**  
**Economics I - Two Hours**

**Instructions:**

- Answer all the questions
- Write your index Number in the space provided in the answer sheet.
- Instructions are given on the back of the answer sheet. Follow those carefully.
- In each of the questions 1 to 50, pick one of the alternatives from (1), (2), (3), (4), (5) which is correct or most appropriate and mark your response on the answer sheet with a cross (×) in accordance with the instructions given in the back of the answer sheet.

1. Economics is the study of
- (1) scarcity of resources and full employment. (2) scarcity of resources and production  
(3) scarcity of resources and choice. (4) scarcity of resources and efficiency.  
(5) scarcity of resources and substitutability.
2. The opportunity cost in Economics is defined as
- (1) the other opportunities sacrificed for obtaining something.  
(2) the financial cost of obtaining something.  
(3) the cost of time of obtaining something.  
(4) the total fixed and variable costs of obtaining something.  
(5) the value of the best alternative sacrificed for obtaining something.
3. Out of the following choose the correct answer that shows the correct features of an economic good.
- A - Existence of a production cost  
B - Existence of an opportunity cost  
C - Consumer has to bear a cost  
D - Existence of a decreasing marginal cost
- (1) A and B. (2) A and C. (3) A, B and C (4) A, C and D. (5) B, C and D
4. The functions of price in a market economy are,
- (1) rationing and functioning as a store of value.  
(2) signalling, providing incentives and functioning as a measure of value.  
(3) signalling, providing incentives and functioning as a store of value.  
(4) providing incentives and functioning as a measure of value.  
(5) signalling, providing incentives and rationing.
5. In a market economy, personal income is determined by
- (1) government factor price policy and subsidies.  
(2) factor price in the factor market and personal income taxes.  
(3) factor price in the factor market and government wage policy.  
(4) factor price in the factor market and the quantity exchanged at that price.  
(5) property ownership and factor price in the factor market.
6. A point inside the production possibility curve shows,
- (1) unemployment (2) scarcity of resources. (3) obsolete technology.  
(4) over-utilization of resources. (5) existence of unskilled labour.
7. The demand equation of a particular good is as follows.
- $$Q_d = 200 - 8P$$
- What is the value of the coefficient of price elasticity of demand of the good when the price is Rs. 10?
- (1) -6.0. (2) -0.66. (3) -0.06. (4) +0.06. (5) +0.66.

8. The price elasticity of demand measures,
- (1) the responsiveness of quantity demanded to a change in a determinant of demand for a good.
  - (2) the responsiveness of quantity demanded to a relative change in price of a good.
  - (3) the responsiveness of quantity demanded of a good to a change in price of another good.
  - (4) the responsiveness of a quantity demanded of a good to a relative change of a factor of production.
  - (5) increase in quantity demanded to a relative change in price of a good.
9. A supplier expects to increase the revenue, by increasing the price of his product by 10%. If this objective is to be achieved:
- (1) price elasticity of demand should be less than one.
  - (2) price elasticity of demand should be greater than one.
  - (3) price elasticity of demand should be equal to one.
  - (4) price elasticity of supply should be equal to zero.
  - (5) price elasticity of supply should be perfectly elastic.
10. The prices of agricultural products such as potatoes and big onions are high during certain periods of the year while very low in other periods of the same year. The main reason for this is,
- (1) the existence of inelastic demand and elastic supply.
  - (2) the existence of elastic demand and elastic supply.
  - (3) the existence of inelastic demand and inelastic supply.
  - (4) the existence of elastic demand and inelastic supply.
  - (5) the existence of perfectly elastic demand and perfectly inelastic supply.
11. The demand and supply data for a particular good is given below.

| Price (Rs.) | Demand (units) | Supply (units) |
|-------------|----------------|----------------|
| 80          | 400            | 800            |
| 100         | 200            | 1000           |

Assume that the demand and supply curves are linear. What is the correct answer that shows the equilibrium price and quantity?

|     | Price (Rs.) | Quantity (units) |
|-----|-------------|------------------|
| (1) | 50          | 500              |
| (2) | 60          | 400              |
| (3) | 60          | 600              |
| (4) | 65          | 300              |
| (5) | 70          | 500              |

12. Suppose that the supply equation for a particular good is given as  $Q_s = 100 + 10P$ . A five-rupee (Rs.5) unit tax was imposed on this good. What is the supply equation after tax?
- (1)  $Q_s = 50 + 10P$
  - (2)  $Q_s = 100 + 5P$
  - (3)  $Q_s = 100 + 15P$
  - (4)  $Q_s = 100 + 50P$
  - (5)  $Q_s = 500 + 50P$
13. When marginal product of the short-run production function of a firm is zero.
- (1) the total product is maximized.
  - (2) the average product is maximized.
  - (3) the average cost is minimized.
  - (4) the marginal cost is minimized.
  - (5) the marginal product equals average product.
14. The meaning of the 'Law of returns to scale' is,
- (1) the way of change in total output of the firm to a change in prices of inputs.
  - (2) the way of change in total output of the firm when variable inputs are changed while holding at least one input constant.
  - (3) the way of change in total output of the firm to a change in technology.
  - (4) the way of change in total output of the firm to a change in the quality of inputs.
  - (5) the way of change in total output of the firm when all inputs are changed.

15. The shape of Total Cost Curve of a firm in the short run is determined by
- (1) the behaviour of average fixed cost.
  - (2) the way of change in technology.
  - (3) the behaviour of average total cost.
  - (4) the behaviour of total variable cost.
  - (5) the behaviour of returns to scale.
16. Even if the average fixed cost of a firm continuously decreases with the increase in output, it never becomes zero because,
- (1) the total cost does not change.
  - (2) there is a variable cost.
  - (3) there is an average cost.
  - (4) there is a marginal cost
  - (5) there is a fixed cost.
17. The short-run supply curve of a firm is,
- (1) the marginal cost curve above average variable cost.
  - (2) the rising part of the average variable cost curve.
  - (3) the rising part of the marginal cost curve.
  - (4) the rising part of the average total cost curve.
  - (5) the marginal cost curve above average total cost.
18. When there are few large firms selling homogeneous or differentiated products in a market, it is known as
- (1) a duopoly market.
  - (2) a monopolistic competitive market.
  - (3) a perfectly competitive market.
  - (4) an oligopolistic market.
  - (5) a monopolistic market.
19. The demand curve of a perfectly competitive firm is perfectly elastic because,
- (1) homogeneous goods are sold in the market.
  - (2) the supplier is a price maker.
  - (3) the supplier is a price taker.
  - (4) the required information is not available for the supplier.
  - (5) advertising is absent.
20. A monopoly firm can decide,
- (1) the price of the good only.
  - (2) the price or quantity of the good only.
  - (3) the quantity of the good only.
  - (4) both price and quantity of the good.
  - (5) both production cost and quantity of the good.
21. The condition that should be satisfied at the equilibrium of a firm is,
- (1) marginal revenue equals marginal cost when marginal cost is increasing.
  - (2) marginal revenue equals marginal cost when marginal cost is decreasing.
  - (3) marginal revenue equals marginal cost at the minimum point of marginal cost.
  - (4) marginal revenue equals marginal cost when average cost is increasing.
  - (5) marginal revenue equals marginal cost when average cost is decreasing.
22. The characteristics that can be observed when an economy moves from the bottom to the peak of a business cycle are,
- (1) increase in actual output, decrease in inflation and unemployment.
  - (2) increase in actual output, decrease in employment and inflation.
  - (3) increase in actual output, increase in employment and inflation.
  - (4) increase in potential output, decrease in inflation and increase in unemployment.
  - (5) increase in actual output, increase in potential output and decrease in inflation.

23. The national income data of a hypothetical economy is given below. (All figures are in Rupee million)

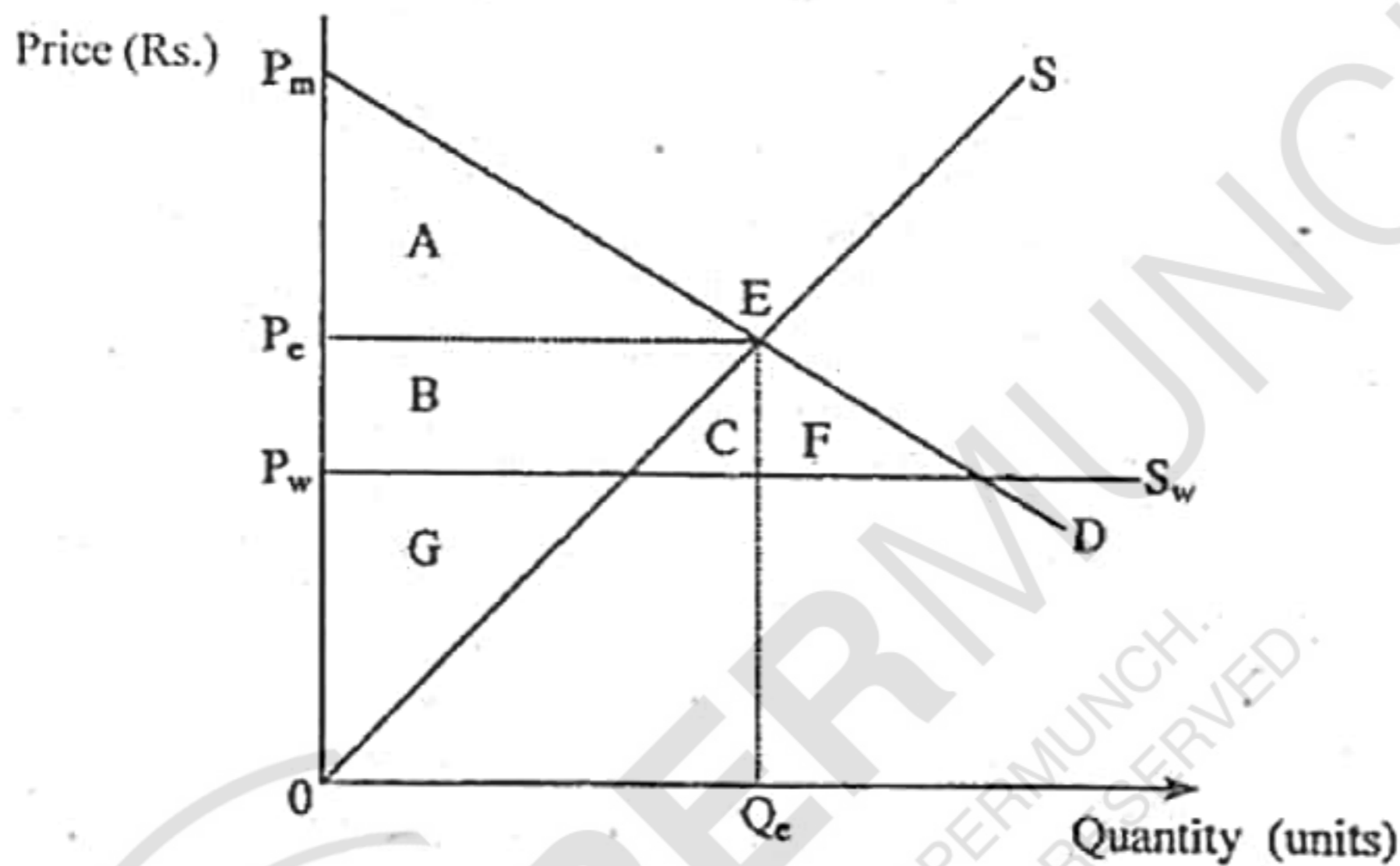
|                                 |       |
|---------------------------------|-------|
| Private consumption expenditure | 1 200 |
| Private investment expenditure  | 400   |
| Government purchasing           | 300   |
| Export earnings                 | 180   |
| Gross Domestic Product          | 1 920 |

What is the value of trade balance in this economy?

- (1) Rs. -160 mn                      (2) Rs. -20 mn                      (3) Rs. 20 mn  
 (4) Rs. 80 mn                        (5) Rs. 160 mn
24. Suppose that the growth of nominal Gross Domestic Product is 13.5%, inflation rate is 6% and the rate of growth of population is 12% for a hypothetical economy. What is the rate of growth of Real Per Capita Gross Domestic Product of the economy?
- (1) -1.2%                              (2) 1.05%                              (3) 6.3%  
 (4) 7.05%                              (5) 7.5%
25. Suppose that the value of Gross National Product of a particular year at constant prices is higher than that of the base year in an economy. This is due to,
- (1) a decrease in general price level and an increase in unemployment.  
 (2) an increase in general price level and a decrease in output.  
 (3) a decrease in general price level and an increase in output.  
 (4) an increase in general price level in a rate higher than the increase in output.  
 (5) an increase in general price level and a decrease in unemployment.
26. The correct statement regarding money supply and income is that,
- (1) both money supply and income are flows as well as stocks.  
 (2) money supply is a flow while income is a stock.  
 (3) both money supply and income are flows.  
 (4) both money supply and income are stocks.  
 (5) money supply is a stock while income is a flow.
27. The demand for money of a country is determined by
- (1) interest rate and amount of high powered money.  
 (2) value of money multiplier and interest rate.  
 (3) interest rate and unemployment.  
 (4) real income and interest rate.  
 (5) amount of high powered money and value of money multiplier.
28. A decline in price level
- (1) has no impact on value of money.  
 (2) increases the value of money.  
 (3) has no impact on value of money in the long run.  
 (4) has no impact on value of money in the short run.  
 (5) reduces the value of money.
29. The  $M_{2b}$  of money supply of Sri Lanka consists of,
- (1) high powered money plus foreign currency deposits.  
 (2) demand deposits plus foreign currency deposits.  
 (3) fixed deposits plus foreign currency deposits.  
 (4) narrow money supply plus time and saving deposits of commercial banks.  
 (5) broad money supply plus foreign currency deposits.

30. Macroeconomic stability of an open economy is well reflected by
- (1) price level and foreign exchange rate.
  - (2) price level and employment rate.
  - (3) foreign exchange rate and employment rate.
  - (4) balance of payments and foreign exchange rate.
  - (5) inflation and unemployment rate.
31. A macroeconomic objective expected to be achieved by reducing the rate of interest in an economy is,
- (1) decrease in consumption due to increase in investment and price level.
  - (2) increase in production due to increase in investment and aggregate demand.
  - (3) increase in profits of firms due to increase in consumption and investment.
  - (4) increase in government tax revenue due to increase in savings and decrease in consumption.
  - (5) emergence of new investments due to increase in share prices and business profits.
32. Examples for expansionary monetary and fiscal policy measures are,
- (1) increasing the statutory reserve ratio and reducing tax rates.
  - (2) selling of government securities by the central bank in the open market and reducing tax rates.
  - (3) increasing the statutory reserve ratio and increasing government purchasing.
  - (4) purchasing of government securities by the central bank in the open market and reducing tax rates.
  - (5) increasing the interest rate and increasing government purchasing.
33. Public goods are not provided by the market system because,
- (1) even if a cost is incurred in consumption, a profit cannot be earned.
  - (2) a price cannot be charged and non-rivalry in consumption.
  - (3) those who do not pay a price cannot be excluded and non-rivalry in consumption.
  - (4) even if a profit can be earned, a cost is incurred in consumption.
  - (5) even if a price can be charged, it cannot be easily implemented.
34. "Public debt of Sri Lanka as a percentage of Gross Domestic Product shows a declining trend in recent years." The main reason for this is,
- (1) the decrease in public debt while Gross Domestic Product remains constant.
  - (2) the decrease in public debt and increase in Gross Domestic Product.
  - (3) the decrease in both public debt and Gross Domestic Product.
  - (4) the increase in Gross Domestic Product while public debt remains constant.
  - (5) the increase in Gross Domestic Product is higher than the increase in public debt.
35. Social benefits are higher than the private benefits in
- (1) education and health services.
  - (2) infrastructure and environmental conservation activities.
  - (3) ports and airport services.
  - (4) roads and hospital services.
  - (5) national parks and environmental conservation activities.
36. The supply-side policy measures that promote production are,
- (1) production subsidies, deregulation, tax reforms and nationalization.
  - (2) tax reforms, nationalization, deregulation, removal of rigidities in labour and capital markets.
  - (3) regulation, tax reforms, expansion of administrative and development activities and labour and capital market reforms.
  - (4) production subsidies, expansion of administrative and development activities, deregulation and trade restrictions.
  - (5) tax reforms, privatization, deregulation and labour and capital market reforms.

37. The sectors that reported a higher growth rate in the Sri Lankan economy during the recent years are,
- (1) transportation, whole sale and retail trade and information and communication.
  - (2) tourism industry, garment industry and gems and jewelry.
  - (3) construction industry, hotels and restaurants and mining and quarrying.
  - (4) construction industry, garment industry and whole sale and retail trade.
  - (5) hotels and restaurants, tourism industry and transportation.
38. The two indices that can be used to measure absolute and relative poverty are respectively.
- (1) Gini coefficient and household electricity consumption..
  - (2) income percentiles and Gini coefficient.
  - (3) household income level and supply of safe drinking water.
  - (4) Poverty line and Gini coefficient.
  - (5) maternal nutrition and supply of safe drinking water.
39. Market equilibrium and import supply of a particular good is shown in the following figure.



- According to this figure the area that shows the additional benefit to the society due to import supply is,
- (1) A and B.    (2) B and C.    (3) B and G.    (4) C and F.    (5) G, C and F.
40. Which of the following is **not** a reason for trade among countries?
- (1) differences of factor endowment among countries.
  - (2) difference of foreign exchange rates among countries.
  - (3) difference of technological know-how among countries.
  - (4) existence of returns to scale in production.
  - (5) difference in consumer tastes and preferences among countries.
41. Information pertaining to a particular economy is given in the table below.

| Year | Per Capita Income (US Dollars) | GINI coefficient |
|------|--------------------------------|------------------|
| 2011 | 2400                           | 0.46             |
| 2012 | 2800                           | 0.47             |
| 2013 | 3200                           | 0.48             |

The correct statement about this economy is;

- (1) income inequality has decreased with an expansion of the economy.
- (2) income inequality has increased with a contraction of the economy.
- (3) income inequality has decreased with a contraction of the economy.
- (4) income inequality has increased with an expansion of the economy.
- (5) neither decrease in income inequality nor economic expansion has occurred.

42. The main dimensions of sustainable development are,
- (1) economic development, conservation of resources for future generations and minimization of income inequality.
  - (2) economic development, upliftment of social status and minimization of income inequality.
  - (3) upliftment of social status, pro-poor growth and environmental conservation.
  - (4) environmental conservation, inclusive growth and increase in employment.
  - (5) economic development, upliftment of social status and environmental conservation.

43. The output quantities of two products that can be produced in Sri Lanka and India using a given amount of inputs are illustrated in the table below:

| Good             | Sri Lanka | India |
|------------------|-----------|-------|
| Tea (units)      | 100       | 90    |
| Garments (units) | 120       | 100   |

The correct statement according to the above information is

- (1) India has the comparative disadvantage in tea production.
  - (2) Sri Lanka has the comparative advantage in garment production.
  - (3) India has the absolute advantage in tea production.
  - (4) both countries have the comparative advantage in the production of both goods.
  - (5) India does not have the comparative advantage in both goods.
44. What are the five main sources of foreign exchange earnings of Sri Lanka in recent years?
- (1) Garments, tea, coconut, gems and computer software
  - (2) Garments, tea, coconut, rubber and computer software
  - (3) Inward remittances, garments, earnings from tourism, tea and rubber
  - (4) Inward remittances, garments, computer software, earnings from tourism and tea
  - (5) Gem and jewelry, tea, coconut, rubber and minerals
45. Which of the following can be considered as unemployed?
- (1) an individual employed in the private sector as a clerk after his graduation.
  - (2) an individual who quits his job in order to look-after elderly parents.
  - (3) an individual who quits his job for higher education.
  - (4) a woman who stayed home to look after her children but seeking employment now.
  - (5) a school student who does not work at his family farm during his examination period.
46. A major change in the labour force participation rate of Sri Lanka in recent years is,
- (1) the increase of female labour force participation rate.
  - (2) the decrease of labour force participation rate.
  - (3) the increase of male labour force participation rate.
  - (4) the decrease of female employment.
  - (5) the significant increase of male unemployment.
47. What are the sub-indices that Sri Lanka should focus for further increase of its human development index within a short period of time?
- (1) Labour force participation rate and life expectancy at birth
  - (2) Literacy rate and maternal mortality rate
  - (3) Maternal mortality rate and infant mortality rate
  - (4) Per Capita Income and school drop-out rate
  - (5) Education participation rate and Purchasing Power Parity adjusted Per Capita Income

48. The accurate answer that shows economic growth rate, unemployment rate and inflation rate of Sri Lanka in 2012 is,

|     | Economic growth rate (%) | Unemployment rate (%) | Inflation rate (%) |
|-----|--------------------------|-----------------------|--------------------|
| (1) | 5.6                      | 5.5                   | 8.0                |
| (2) | 7.5                      | 6.0                   | 4.0                |
| (3) | 7.0                      | 8.9                   | 9.0                |
| (4) | 6.4                      | 4.0                   | 7.6                |
| (5) | 8.3                      | 8.9                   | 4.0                |

49. The recent policy decisions of the Sri Lankan government to minimize the negative impact of outward migration of unskilled female workers to middle-east countries are,

- (1) determining a maximum period of work abroad and maintaining a minimum balance in the non residential foreign currency account of the worker.
- (2) opening a non residential foreign currency account and implementing a minimum of three-year period of work contract.
- (3) determining a minimum age limit and obtaining a report of family background of the migrant.
- (4) determining a minimum age limit and implementing a minimum of three-year period of work contract
- (5) opening a non residential foreign currency account and determining a maximum period of work abroad.

50. The main driving forces of globalization are,

- (1) improvement in the transportation sector and maintaining protectionist trade policies.
- (2) the removal of protectionist trade policies and advancement in technology.
- (3) expansion of multinational companies and existence of labour market rigidities.
- (4) economic integration and maintaining protectionist trade policies.
- (5) deregulation of markets and existence of imperfect competition.

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**General Certificate of Education (Adv. Level) Examination, August 2014**

**Economics II - Three Hours**

**Instructions:**

- Answer five questions only, selecting minimum of two questions from sub-section A and two questions from Sub-section B.
- Graph papers will be provided.

**Sub section A**

*(Select minimum of two questions from this Section.)*

1. (i) Explain why societies always face the problem of choice. (04 marks)
  - (ii) How does entrepreneurship differ from the other factors of production? (04 marks)
  - (iii) Distinguish between 'capital' and 'investment'. (04 marks)
  - (iv) What measures can be taken to improve productivity of human resources of a country? (04 marks)
  - (v) Explain how the problem of choice of Production Technology is solved in a market economy. (04 marks)
2. (i) Explain production possibility curve using a diagram. (04 marks)
  - (ii) Explain the reasons for increasing opportunity cost when resources are utilized in production. (04 marks)
  - (iii) Explain the following events by using production possibility curve diagrams.
    - (a) Returning of a significant number of professionals who had been in foreign countries. (02 marks)
    - (b) Destruction of capital resources of a country due to a natural disaster. (02 marks)
    - (c) Use of unutilized rural resources in production due to the expansion of road network. (02 marks)
    - (d) A rapid expansion of the tourism industry in comparison to the garment industry. (02 marks)
  - (iv) The combinations of goods X and Y which can be produced in an economy under the given technology with the full utilization of existing resources are given in the following table.

| Product combinations | Units of X | Units of Y |
|----------------------|------------|------------|
| A                    | 0          | 150        |
| B                    | 20         | 140        |
| C                    | 40         | 125        |
| D                    | 60         | 105        |
| E                    | 80         | 70         |
| F                    | 100        | 0          |

- (a) Calculate the opportunity costs between different product combinations (A-B, B-C, C-D, D-E and E-F) of this economy. (02 marks)
- (b) According to the information given in the above table, will there be an opportunity cost when the economy shifts from producing 40 units of X and 60 units Y to 60 units of X and 80 units of Y? Give reasons for your answer. (02 marks)

3. (i) What are the factors that determine the market demand for mobile phones? (04 marks)
- (ii) What are the main factors influencing the direct relationship between the price and quantity supplied of a good (05 marks)
- (iii) What is meant by 'prices of other goods' that influence the supply of a good? (05 marks)
- (iv) "For an equilibrium in a free market, the minimum quantity supplied should be less than the maximum quantity demanded." Explain this statement using a diagram. (05 marks)

4. The demand and supply equations for a particular good are given below:

$$Q_d = 150 - 5P \quad (\text{Demand equation})$$

$$Q_s = 75 + 10P \quad (\text{Supply equation})$$

Calculate the following using the above information:

- (i) Market equilibrium price and quantity (02 marks)
- (ii) Value of consumer surplus at the market equilibrium. (03 marks)
- (iii) The values of price elasticity coefficient of demand and supply at the equilibrium. (04 marks)
- (iv) If the government imposes a unit tax of Rs. 1.50 on this good,
- (a) new equilibrium price and quantity after the tax. (02 marks)
- (b) tax revenue of the government. (03 marks)
- (c) the influence of tax on consumer surplus. (03 marks)
- (d) the value of dead weight loss to the society due to the tax. (03 marks)
5. The information pertaining to a hypothetical economy for a particular year is given below:  
(All figures are in Rs. millions.)

|                                 |     |
|---------------------------------|-----|
| Private consumption expenditure | 800 |
| Government purchasing           | 150 |
| Imports                         | 60  |
| Domestic private investment     | 200 |
| Factor income from abroad       | 40  |
| Change in inventories           | 50  |
| Depreciations                   | 40  |
| Exports                         | 80  |
| Factor payments to abroad       | 60  |
| Purchasing of raw materials     | 20  |
| Purchasing of shares and bonds  | 15  |

- (i) For this economy,
- (a) Construct aggregate demand equation. (03 marks)
- (b) Calculate Gross Domestic Expenditure. (03 marks)
- (c) Calculate Gross National Expenditure. (03 marks)
- (d) Calculate Net National Expenditure. (03 marks)
- (ii) Explain the macroeconomic equilibrium of a simple economy using a diagram. (04 marks)
- (iii) What is the impact of investment multiplier in determining the national income? Explain with an example. (04 marks)

**Sub Section B***(Select minimum of two questions from this section.)*

6. (i) Explain, using a diagram, the relationship between income and money demand for transaction motive. (05 marks)
- (ii) Explain why credit cards are taken into account while debit cards are not when determining money supply of a country. (05 marks)
- (iii) What are the objectives of the Central Bank of Sri Lanka? Explain how these objectives are achieved. (05 marks)
- (iv) Explain the qualitative credit control measures used by Central Bank in order to control money supply of a country. (05 marks)
7. (i) Explain the major role of government in a market economy. (05 marks)
- (ii) Classify government expenditure according to the economic classification. (05 marks)
- (iii) What are the main sources of financing the budget deficit of Sri Lanka in the recent past? (05 marks)
- (iv) Describe briefly the recent trends of the public debt rate in Sri Lanka. (05 marks)
8. Sri Lanka and China produce garments and machinery. The table below illustrates the hypothetical output quantities of the two goods produced by the two countries using the given amount of inputs.

| Country   | Machinery (Units) | Garments (Units) |
|-----------|-------------------|------------------|
| China     | 50                | 150              |
| Sri Lanka | 10                | 50               |

Answer part (i) and (ii) using the data given in the above table.

- (i) Which country should specialize in which good? Explain. (05 marks)
- (ii) What is the terms of trade ratio between the two countries after specialization? (05 marks)
- (iii) What are the tariff and non-tariff barriers that limit free trade? (05 marks)
- (iv) Explain why countries impose barriers to free trade. (05 marks)
9. (i) Define economic growth. How is it measured? (05 marks)
- (ii) Explain the structural changes in national production that can take place with the economic growth of a country. (05 marks)
- (iii) 'Economic development is a multi-dimensional process'. Explain. (05 marks)
- (iv) Describe the recent trends of poverty in Sri Lanka. (05 marks)
10. (i) What are the major factors that determined the economic growth of Sri Lanka in recent years? (05 marks)
- (ii) Explain briefly the importance of the service sector in the economy of Sri Lanka. (05 marks)
- (iii) What measures can be taken to achieve higher growth in the industrial sector of Sri Lanka? (05 marks)
- (iv) Briefly describe the major infrastructure development projects implemented in Sri Lanka in recent past. (05 marks)

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