

General Certificate of Education (Adv. Level) Examination, August 2012

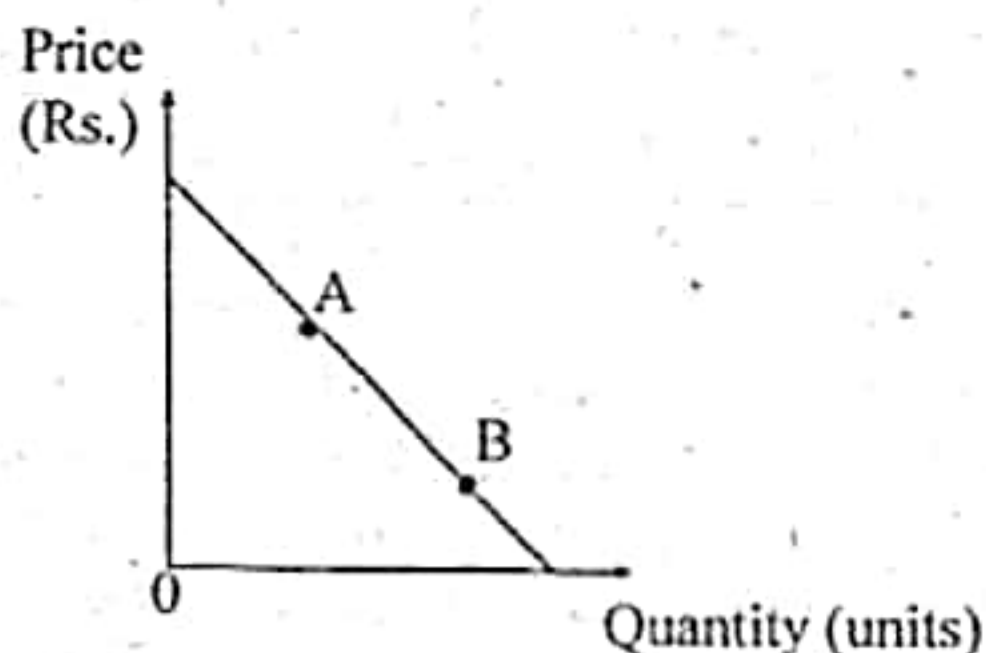
Economics I - Two Hours

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.

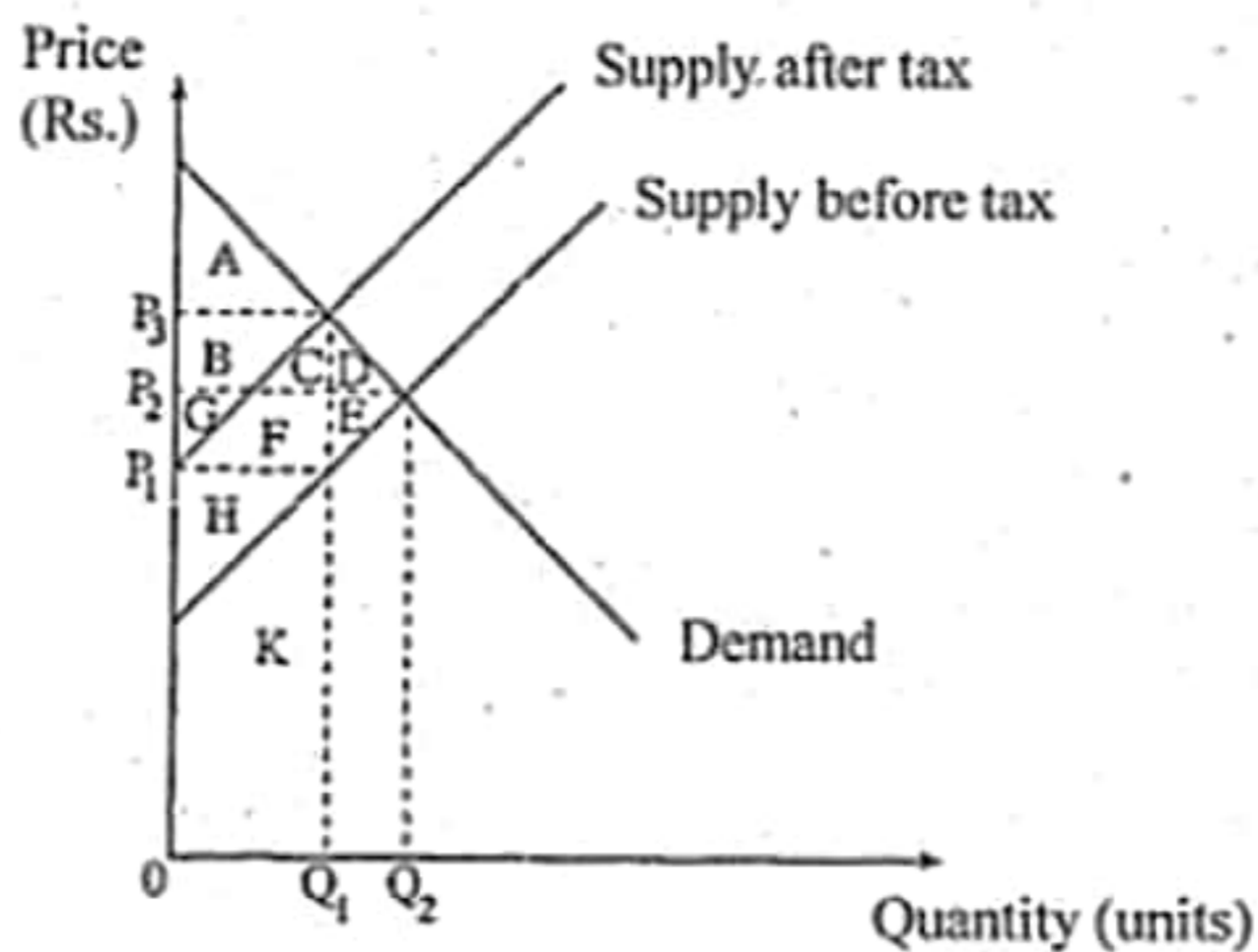
1. Due to scarcity of resources,
 - (1) every society must undertake central planning.
 - (2) the government must decide how to allocate available resources.
 - (3) some members of each society must live in poverty.
 - (4) every society must choose among competing uses of available resources.
 - (5) resource availability exceeds the possible uses for available resources.
2. A production possibility curve might be shifted outward by each of the following except,
 - (1) improvement in technology.
 - (2) movement toward more open approach to free trade.
 - (3) decrease in unemployment.
 - (4) increase in the educational levels of general population.
 - (5) improvement of productivity
3. If resources were perfectly substitutable in all activities, which one of the following would be true?
 - (1) Output of all goods could be increased at zero opportunity cost.
 - (2) The production possibilities curve would be a straight line.
 - (3) Specialization and mutually beneficial trade would be impossible.
 - (4) No country or individual would have a comparative advantage in activity.
 - (5) Scarcity of resources would be eliminated.
4. Which one of the following would be a microeconomic topic?
 - (1) A general rise interest rates
 - (2) A drop in inflation rate
 - (3) An increase in GDP in the United States
 - (4) A drop in Sri Lanka's unemployment rate
 - (5) An increase in the price of milk powder
5. A free good has which one of the following characteristics?
 - (1) It has no opportunity cost in supply.
 - (2) It is generally supplied by the government because its consumption is considered to be socially desirable.
 - (3) It has no externalities associated with its consumption or production.
 - (4) It is in perfectly inelastic supply.
 - (5) Its production is subject to the law of diminishing returns.
6. Which of the following is a fundamental aspect of the free market system?
 - (1) A high degree of government involvement
 - (2) Public ownership of resources
 - (3) Private property
 - (4) Central planners set wages and prices
 - (5) Employers consult government agencies for guidance in hiring workers with appropriate job skills.

7.



- The diagram above shows the market demand for good X. A movement from point A to point B would most likely be caused by
- (1) an increase in the price of good Y, a substitute.
 - (2) an increase in consumers' income.
 - (3) a decrease in consumers' income
 - (4) a decrease in production costs for good X.
 - (5) decrease in the supply of good X.
8. Which of the following would shift the supply curve of a good to the left?
- (1) An increase in the cost of production
 - (2) A decrease in the cost of production
 - (3) An increase in the price.
 - (4) A decrease in the price.
 - (5) A decrease in demand
9. A consumer finds that his total expenditure on rice stays the same after the price of rice declines, other things being equal. Which of the following is true for this price change?
- (1) Rice is an inferior good to this consumer.
 - (2) The consumer's demand for rice increased in response to the price change.
 - (3) The consumer's demand for rice is perfectly price elastic.
 - (4) The consumer's demand for rice is perfectly price inelastic.
 - (5) The consumer's demand for rice is unit price elastic.
10. Setting an effective price floor would
- (1) increase consumer surplus and increase producer surplus.
 - (2) increase consumer surplus and decrease producer surplus.
 - (3) decrease consumer surplus and decrease producer surplus.
 - (4) decrease consumer surplus and increase producer surplus.
 - (5) leave both consumer surplus and producer surplus unaffected.
11. If the income elasticity of demand for good X is negative and the cross price elasticity of demand between good X and good Y is negative, which of the following must be true of good X?
- (1) X is a normal good and is a substitute for Y.
 - (2) X is a normal good and is a complement to Y.
 - (3) X is an inferior good and is a substitute for Y.
 - (4) X is an inferior good and is a complement to Y.
 - (5) X is a normal good and Y is an inferior good.
12. Assume that demand for bottled water is relatively price elastic. An increase in supply of bottled water will result in which of the following?
- (1) A decrease in price, leading to an increase in total revenue.
 - (2) A decrease in price, leading to a decrease in total revenue.
 - (3) An excess supply of bottled water.
 - (4) An excess demand for bottled water.
 - (5) A relatively small decrease in price and no change in equilibrium quantity.

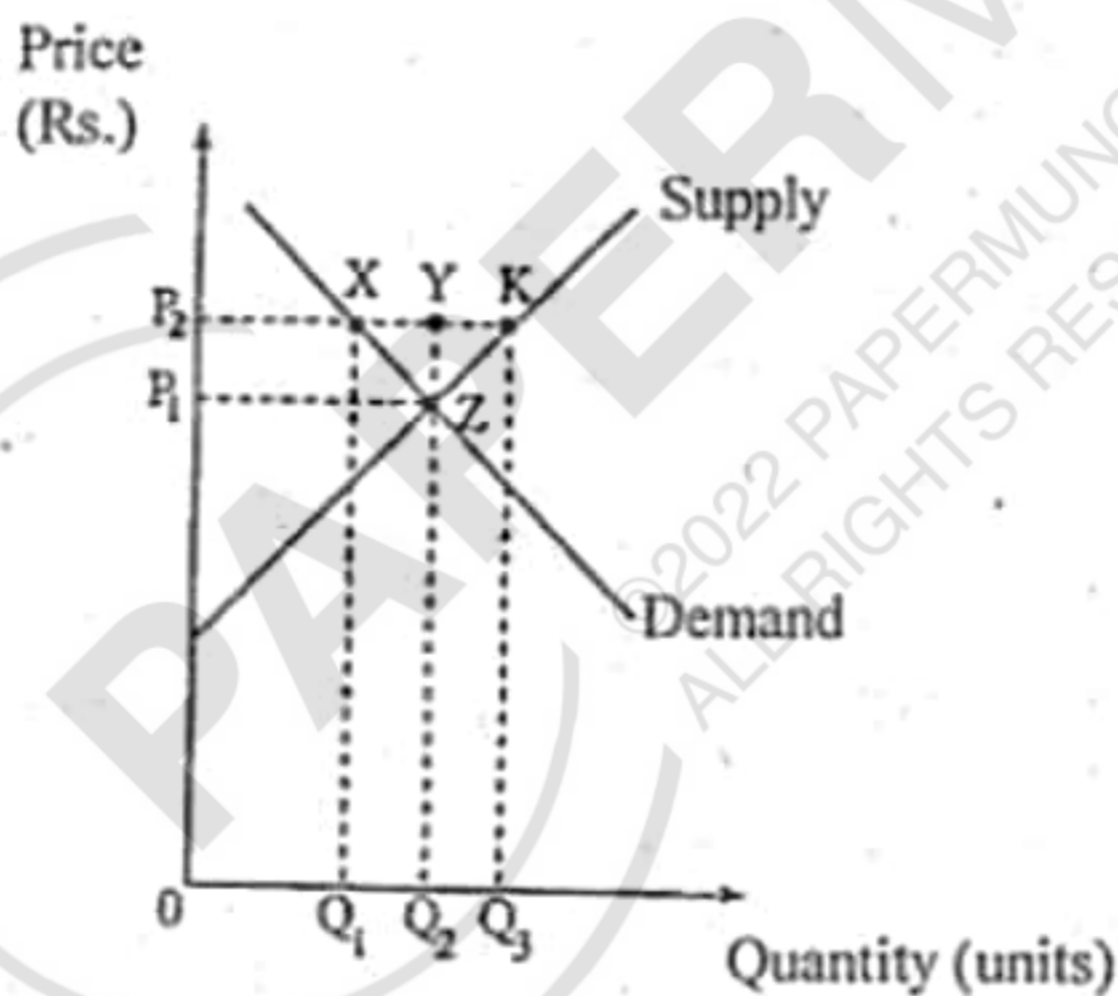
13.



The graph above shows the market for good X. If the government imposes a specific tax on each unit of good X, which of the following represents the consumer surplus, producer surplus, and deadweight loss after the imposition of the tax.

Consumer Surplus	Producer surplus	Deadweight Loss
(1) A	$G + F + E + H$	$D + E$
(2) A	H	$D + E$
(3) $A + B$	$G + F + E$	$C + D$
(4) $A + B + C + D$	$G + F + E + H$	$D + E$
(5) $A + B + C + D$	$H + F + C$	E

14. The diagram below represents a market for an agricultural product.



The government sets a minimum price of OP_2 . Assuming that it buys up all the surplus stocks at the minimum price, farmers total revenue will be

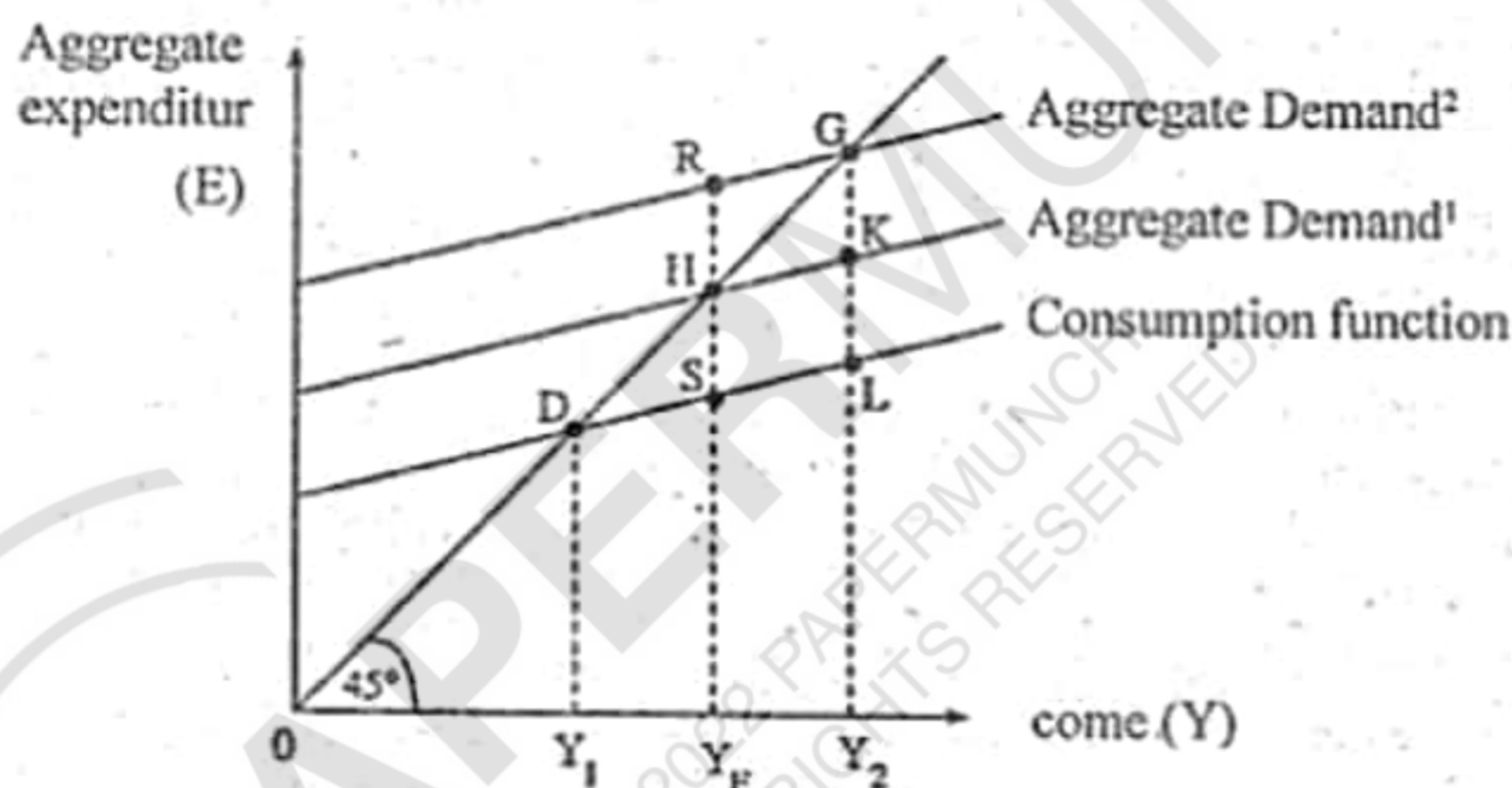
- | | | |
|----------------|----------------|----------------|
| (1) OP_2KQ_3 | (2) OP_1ZQ_2 | (3) OP_2XQ_1 |
| (4) Q_1XYQ_2 | (5) P_1P_2ZY | |

15. A firm employs variable amounts of labour to a fixed amount of capital to produce good X. If the daily wage paid to labour increases, how does this affect the firm's costs?

Total variable cost	Total fixed cost	Total cost
(1) decrease	no change	decrease
(2) decrease	decrease	decrease
(3) increase.	decrease	no change
(4) increase	no change	increase
(5) increase	increase	increase

16. Which of the following is true about the marginal revenue of a firm in a perfectly competitive industry?
- (1) It is constant. (2) It increases as output sold increases.
 (3) It decreases as output sold increases. (4) It increases at first, then decreases.
 (5) It decreases at first, then increases.
17. Monopolistic competition is a market structure in which there is
- (1) only one firm.
 (2) a small number of firms.
 (3) a large number of firms producing an identical product.
 (4) a large number of firms producing a differentiated product.
 (5) no advertising.
18. Gross Domestic Product (GDP)
- (1) is the sum of all exchanges of goods and services during a given year.
 (2) includes financial transactions such as the purchase of stocks or bonds traded during a given year.
 (3) includes the purchases of goods at intermediate stages of production.
 (4) is the sum of the total spending on all final-user goods and services produced domestically during a given year.
 (5) includes all goods and services produced during a given year.
19. Which of the following will most likely occur during the expansionary phase of the business cycle?
- (1) Real GDP rises and unemployment falls
 (2) Real GDP rises and unemployment rises
 (3) Real GDP declines and inflation rises
 (4) Interest rates rise and the number of business failures rise
 (5) Inflation rises and employment falls
20. In calculating GDP all of the following are excluded **except**
- (1) the value of intermediate goods.
 (2) the value of all homes built in the year in question.
 (3) the value of used goods.
 (4) purely financial transactions.
 (5) subsidies from the government.
21. Selected macroeconomic data for an economy is given below (Figures are in Rs. billion).
- | | |
|--|-------|
| Government purchases | 500 |
| Wages and other supplementary labour incomes | 2 000 |
| Depreciation | 400 |
| Gross investment | 400 |
| Private consumption | 2 200 |
| Net exports | -50 |
| Net indirect taxes | 150 |
- Net Domestic Product at market prices equals
- (1) Rs. 2 650 billion. (2) Rs. 3 050 billion. (3) Rs. 3 150 billion.
 (4) Rs. 3 400 billion. (5) Rs. 4 650 billion.
22. Assume that in an economy operating at equilibrium, exports = Rs. 400 million, imports = Rs. 500 million, taxes = Rs. 1 200 million, government purchases = Rs. 1 500 million and saving Rs. 1 000 million. Then the level of investment is
- (1) Rs. 700 million. (2) 800 million. (3) Rs. 1 000 million.
 (4) Rs. 1 200 million. (5) Rs. 1 300 million.

23. Which of the following will result in the greatest increase in aggregate demand?
- (1) A Rs. 100 million increase in taxes
 - (2) A Rs. 100 million decrease in taxes
 - (3) A Rs. 100 million increase in government purchases
 - (4) A Rs. 100 million increase in government purchases coupled with a Rs. 100 million increase in taxes.
 - (5) A Rs. 100 million increase in government purchases, coupled with a Rs. 100 million decrease in taxes.
24. If an autonomous increase in spending in an economy of Rs. 100 million leads to an increase in real GDP of Rs. 500 million, then for that economy the marginal propensity to consume must have been
- (1) 0.2
 - (2) 0.4
 - (3) 0.5
 - (4) 0.8
 - (5) 5.0
25. In an economy where nominal GNP is Rs. 5 000 billion and the money supply is Rs. 1 000 billion, the velocity of circulation is
- (1) 0.2
 - (2) 0.5
 - (3) 5
 - (4) 4 000
 - (5) 6 000
26. The diagram below shows different equilibrium income levels for an economy under different aggregate demand conditions.



If the full employment level of income is Y_F , which distance measures the inflationary gap?

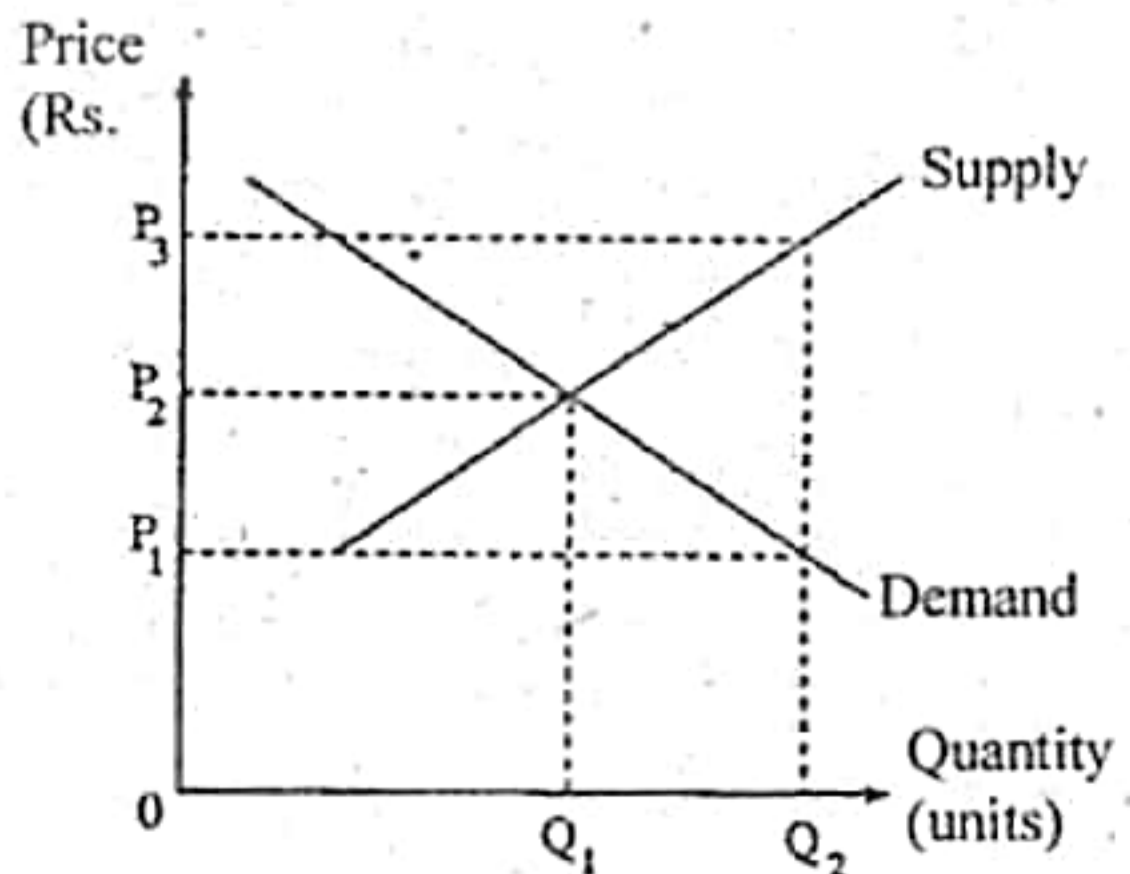
- (1) SH
 - (2) RH
 - (3) LG
 - (4) $Y_F R$
 - (5) $Y_2 G$
27. If the reserve requirement is 20%, the existence of Rs. 100 million worth of excess reserves in the banking system can lead to a maximum expansion of money supply equal to
- (1) Rs. 20 million.
 - (2) Rs. 100 million
 - (3) Rs. 300 million
 - (4) Rs. 500 million
 - (5) Rs. 750 million.
28. If the public's desire to hold money as currency increases, what will the impact be on the banking system?
- (1) Banks would be more able to increase their liquid assets.
 - (2) Banks would be more able to increase their earning assets.
 - (3) Banks would be less able to reduce interest rates they charge.
 - (4) Banks would be more able to expand credit.
 - (5) Banks would be less able to expand credit.

29. Suppose the amount of reserves in the commercial banking system equals Rs. 100 billion, the amount of deposits equals Rs. 800 billion, and the amount of currency held by public equals Rs. 200 billion. Under these circumstances the money multiplier would equal.
- (1) 0.30 (2) 0.37 (3) 2.70
(4) 2.95 (5) 3.33
30. An open market purchase of government securities by the Central Bank will
- (1) increase bank reserves and thus increase the monetary base.
(2) decrease bank reserves and thus decrease the monetary base.
(3) increase bank reserves and decrease the monetary base.
(4) decrease bank reserves and increase the monetary base.
(5) decrease bank reserves but increase the money supply if banks have excess reserves.
31. Which one of the following is a reason for government intervention to correct a market failure?
- (1) Inferior goods (2) Diseconomies of scale
(3) Externalities in production and consumption
(4) Homogeneous products
(5) Advertising
32. The table below indicates the private and external costs and benefits, resulting from building a coal-burning power station.

(in Rs. billion)	
Private benefits	180
Private costs	190
External benefits	110
External costs	140

The social cost minus the social benefit equals

- (1) Rs. 120 billion (2) Rs. 50 billion (3) Rs. 40 billion
(4) Rs. 30 billion (5) Rs. 10 billion
33. One reason why the free market fails to achieve an optimal allocation of scarce resources is because
- (1) public goods are provided free of charge to users.
(2) positive externalities lead to overproduction of some goods.
(3) there is underproduction of goods with positive externalities.
(4) individuals' incomes and wealth are not identical.
(5) existence of competition.
34. The diagram below shows the market demand and supply curves of a merit good. To increase consumption from $0Q_1$ and $0Q_2$, the government could
- (1) tax producers by P_3P_2 per unit of the good.
(2) subsidize producers by P_3P_1 per unit of the good.
(3) impose a maximum price of $0P_3$.
(4) impose a minimum price of $0P_2$.
(5) introduce a guaranteed price at $0P_1$.



35. If the economy is in severe recession, which of the following is the fiscal policy most effective in stimulating production?
- (1) Government spending increases.
 - (2) Government spending decreases.
 - (3) Personal income taxes are increased.
 - (4) The Central Bank sells securities on the open market.
 - (5) The Central Bank buys securities on the open market.

36. The table below indicates the number of labour hours required in countries X and Y to produce one unit of food or one unit of clothing.

Country	Food	Clothing
X	20 hours	50 hours
Y	10 hours	20 hours

Given this information, which of the following statements is correct?

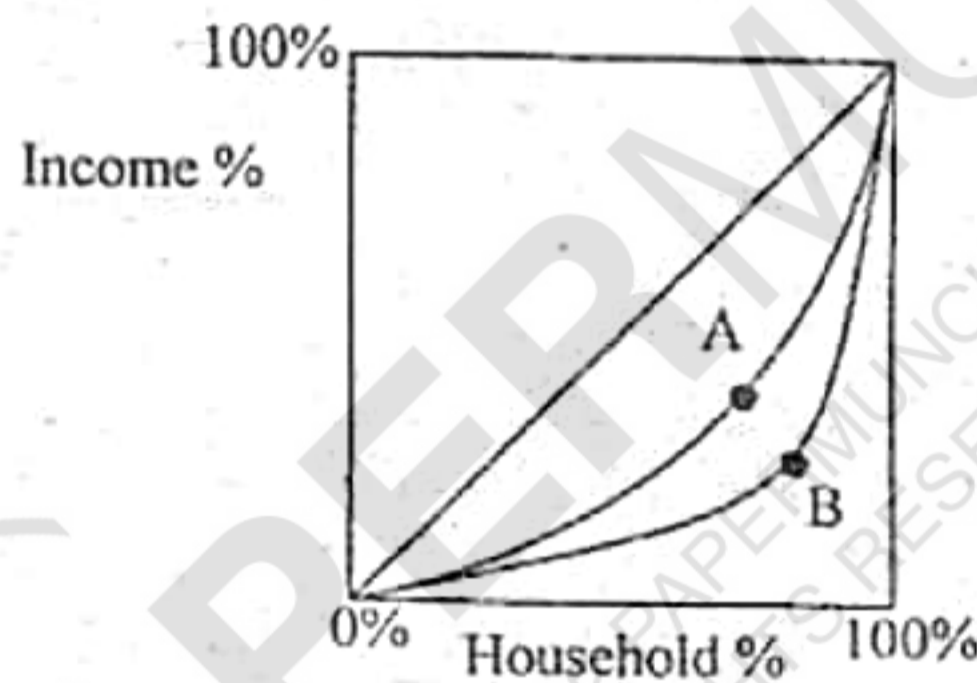
- (1) X has a comparative advantage in the production of both food and clothing.
 - (2) Y has a comparative advantage in the production of both food and clothing.
 - (3) X has a comparative advantage in food production, whereas Y has a comparative advantage in clothing production.
 - (4) Y has a comparative advantage in food production, whereas X has a comparative advantage in clothing production.
 - (5) Neither country has a comparative advantage in the production of either good.
37. Consider the following hypothetical Balance of Payments data for a country.

Item	Value (in Rs. billion)
Exports of goods	11 000
Imports of goods	13 000
Net services	200
Net incomes	-2 000
Net current transfers	- 100

The Balance of Payments on current account shows a

- (1) deficit of Rs. 4 100 billion.
 - (2) deficit of Rs. 3 900 billion.
 - (3) deficit of Rs. 120 billion.
 - (4) surplus of Rs. 2 188 billion
 - (5) Surplus of Rs. 120 billion.
38. A positive balance on merchandise trade in country's balance payments necessarily implies that
- (1) the terms of trade index is higher than the previous year.
 - (2) more goods are being exported than are being imported.
 - (3) an improvement has occurred in the balance on current account.
 - (4) the value of imports of goods is less than the value of exports of goods.
 - (5) export prices are higher than import prices.
39. If country A has absolute advantage in the production of everything,
- (1) no trade will take place because country A will have a comparative advantage in everything.
 - (2) no trade will take place because no country will have a comparative advantage in anything.
 - (3) trade will probably take place and all countries will gain.
 - (4) trade will probably take place, but country A will not gain.
 - (5) trade will probably take place, but country A will be the only one to gain.

40. If the nominal exchange rate between the dollar and the Sri Lankan rupee changes from \$ 1 = Rs. 110 to \$ 1 = Rs. 135, then
- (1) rupee appreciates and dollar depreciates.
 - (2) Sri Lankan goods will become less expensive to Americans and imports of Sri Lankan goods to the US will rise.
 - (3) Sri Lankan goods will become more expensive to Americans and imports of Sri Lankan goods to the US will rise.
 - (4) Sri Lankan goods will become more expensive to Americans and imports of Sri Lankan goods to the US will fall.
 - (5) Sri Lankan goods will become less expensive to Americans and imports of Sri Lankan goods to the US will fall.
41. Under a flexible exchange rate system, the primary mechanism for dealing with temporary disequilibria in balance of payments is a
- (1) rigid system of exchange controls.
 - (2) currency flow from surplus to deficit countries.
 - (3) devaluation or revaluation of exchange rates.
 - (4) depreciation or appreciation of exchange rates.
 - (5) maintaining a tight fiscal policy.
42. Lorenz curves for country A and country B are shown in the diagram below:



- With reference to the above diagram, which of the following statements is correct?
- (1) Country A has a more equitable distribution of income than country B.
 - (2) Country A has a less equitable distribution of income than country B.
 - (3) The Gini coefficient for country A is equal to 1.
 - (4) The Gini coefficient for country B is equal to 1.
 - (5) The Gini coefficient for country A is greater than for country B.
43. GNP per capita measured in US dollars using nominal exchange rate, may be a poor indicator of comparative standards of living between high income countries and low income countries, because of a divergence in
- (1) nominal exchange rates from purchasing power parity exchange rates.
 - (2) population growth rates.
 - (3) rates of price and wage inflation.
 - (4) ratio of imports to national income.
 - (5) nominal effective exchange rates.

44. Long run economic growth in a country would be encouraged through which of the following combinations of events?

Savings rates	Investment	Interest rates
(1) high	high	high
(2) high	high	low
(3) high	low	low
(4) low	low	low
(5) high	low	high

45. Some demographic data for a country are given below: (Figures are in millions)

Population	60
Population in working - age	50
Number in the labour force	30
Number employed	28
Number unemployed	2

Based on the above data, what is the labour force participation rate of the economy?

- (1) 40% (2) 56% (3) 60%
 (4) 75% (5) 93.3%

46. Economic growth is usually measured by the annual change in
 (1) the consumer price index. (2) real Gross National Product.
 (3) the output of the manufacturing industry (4) consumer expenditure.
 (5) rate of investment.
47. The dependency ratio in Sri Lanka is defined as
 (1) number of children to adults in the population.
 (2) percentage of unemployed to employed in the labour force.
 (3) non-working age population to working age population.
 (4) the percentage of population over 65 years of age.
 (5) the percentage of population that is below 15 and above 64 years of age.
48. One of the components of the Human Developments Index is
 (1) the percentage of population who have completed 12 years of schooling.
 (2) the average daily intake of protein.
 (3) life expectancy at birth.
 (4) adult literacy rate.
 (5) the number of doctors per 1000 persons in the population.
49. BRICS countries include
 (1) Bangladesh, Russia, India, China and South Korea.
 (2) Brazil, Russia, India, China and South Korea.
 (3) Bangladesh, Russia, India, China and Singapore.
 (4) Brazil, Russia, India, China and South Africa.
 (5) Brazil, Russia, Indonesia, China and South Korea.
50. Which one of the following provinces in Sri Lanka has the highest Poverty Headcount Index at present?
 (1) Northern (2) Eastern (3) North Western
 (4) Uva (5) Sabaragamuwa

General Certificate of Education (Adv. Level) Examination, August 2012
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) How do you define economic resources? How do you classify them? (04 marks)
(ii) What are the major functions of the entrepreneur? (04 marks)
(iii) Distinguish between productive efficiency and allocative efficiency. (04 marks)
(iv) Explain the concept of opportunity cost and describe how it relates to the problem choice between alternative uses of scarce resources. (04 marks)
(v) Outline the differences between command and market economies. (04 marks)
2. (i) Explain the 'law of demand'. Why does a demand curve slope downward? (04 marks)
(ii) Suppose the following equations describe the market demand and supply functions of a commodity.
 $Q_d = 50 - 5P$ $Q_s = -10 + 5P$
Solve the equations to determine the equilibrium price and quantity. (04 marks)
(iii) Calculate the price elasticity of demand at the equilibrium price. (02 marks)
(iv) Suppose now the government introduces a guaranteed price of Rs. 8 per unit, for the producers in this market. What would be the total cost of this price support scheme to the government? (04 marks)
(v) Estimate the value of the consumer surplus and the producer surplus under the guaranteed price. (06 marks)
3. (i) What is meant by short run production function? (02 marks)
(ii) What is the law of diminishing returns, and what does it imply about the likely shape of short-run cost curves? (04 marks)
(iii) How do the concepts of accounting profit and economic profit differ? (04 marks)
(iv) What is meant by 'price maker' and 'price taker'? (04 marks)
(v) What distinguishes oligopoly from monopolistic competition? (06 marks)
4. (i) Sketch a circular flow of goods, services, and resources through households and firms. Draw money flows also in the same diagram. Indicate the direction of each flow. (04 marks)
(ii) Explain why an economy's total output, in essence, is also its total income. (02 marks)
(iii) Why are some productive activities not measured and thus, are not included in GDP? Is this a serious problem in estimating the total output of a country? Explain your answer. (04 marks)
(iv) Which of the following are included in this year's GDP? Explain your answer in each case.
(a) Interest received on corporate bonds
(b) Pension payments received by a retired public servant
(c) The purchase of an insurance policy
(d) The purchase of 100 shares of a finance company
(e) Rent received on an apartment. (05 marks)

- (v) Consider the data given below for a hypothetical economy. (Figures are in Rs. billion)

Item	Value	Item	Value
Wages, salaries and other labour incomes	225	Net exports	11
Indirect taxes	25	Depreciation	40
Interest incomes	55	Subsidies	20
Undistributed corporate profits	72	Corporate income tax	18
Property incomes	34	Dividends	16
Incomes of self-employed	80	Net foreign factor incomes	5

Using the above data, determine GNP at market price.

(05 marks)

5. (i) Explain what is meant by an equilibrium level of national income. What are the conditions required for the equilibrium in national income level? (06 marks)
- (ii) Why is saving called a 'leakage'? (02 marks)
- (iii) Assume that, without taxes the consumption schedule of an economy is as shown below: (Figures are in Rs. billion)

GDP (Y)	Consumption (C)	GDP (Y)	Consumption (C)
100	120	400	360
200	200	500	440
300	280	600	520

Graph this consumption schedule and derive the equation representing the consumption function.

(06 marks)

- (iv) Assume now that a lump-sum tax system is imposed, such that the government collects Rs. 20 billion in taxes at all levels of GDP. Graph the resulting consumption schedule and derive the equation representing the new consumption schedule. (06 marks)

Sub Section B

(Select minimum of two questions from this section.)

6. (i) What are the principal reasons for people demanding money? (03 marks)
- (ii) What is 'near money'? What are the near money components in M_4 monetary aggregate? (05 marks)
- (iii) Assume that one of the commercial banks in the banking system has cash reserves of Rs. 200 billion, loans of Rs. 800 billion and deposits of Rs. 1 000 billion.
- (a) Prepare a balance sheet for this bank. (02 marks)
- (b) If the bank maintains a reserve requirement of 12%, what is the largest loan it can make?
- (iv) What factors could cause the actual expansion of the money supply to differ from that given by the deposit expansion multiplier? (04 marks)
- (v) Explain how the open market operations are conducted by the Central Bank to contract money supply. (04 marks)
7. (i) Define and give an example for each of the following categories of goods and services:
- (a) Global public goods
- (b) Common resources
- (c) Quasi public goods (06 marks)
- (ii) Distinguish between statutory tax incidence and economic tax incidence. (04 marks)
- (iii) What is meant by 'neutrality of taxation'? (02 marks)
- (iv) Distinguish between 'primary deficit' and 'net cash deficit' of the budget. (04 marks)
- (v) Identify the major non-tax revenue sources of the government of Sri Lanka. (04 marks)

8. (i) What are the sources of comparative advantage? (04 marks)
(ii) What are the major accounts and items in the Balance of Payments statement? (04 marks)
(iii) Distinguish between a country's terms of trade and its balance of trade. (04 marks)
(iv) What is the role of WTO in international trade? (04 marks)
(v) Describe what is meant by 'managed float' exchange rate system. (04 marks)
9. (i) Distinguish between the 'rate of economic growth' and economic growth'. (04 marks)
(ii) Outline the main sources of economic growth. (04 marks)
(iii) What are the limitations of Human Development Index as an indicator of development? (04 marks)
(iv) Examine the recent trends in multidimensional poverty in Sri Lanka. (04 marks)
(v) Outline the measures taken by the present government to reduce regional economic disparities in Sri Lanka. (04 marks)
10. (i) What are the implications of slow recovery and recessions in the major industrialized countries in the world on the economy of Sri Lanka? (05 marks)
(ii) "The performance of state owned business enterprises (SOBEs) in Sri Lanka continues to be unsatisfactory." Identify the major deficiencies of these enterprises. (05 marks)
(iii) Outline the main features of the current development policy in Sri Lanka as compared with the policies implemented during the period 1977-2004. (05 marks)
(iv) Identify the salient features of the 'Divineguma' programme. (05 marks)

PAPERMUNCH
©2022 PAPERMUNCH.
ALL RIGHTS RESERVED