



ASSOCIATION OF ACCOUNTING TECHNICIANS OF SRI LANKA

AA1 EXAMINATION - JANUARY 2016

(AA13) ECONOMICS FOR BUSINESS AND ACCOUNTING

• **Instructions to candidates** (Please Read Carefully):

- (1) **Time allowed:** Reading - 15 minutes
Writing - 03 hours.

06-02-2016
Afternoon
[1.45 – 5.00]

- (2) **All questions should be answered.**
- (3) **Answers should be in one language, in the medium applied for, in the booklets provided.**
- (4) **Submit all workings and calculations. State clearly assumptions made by you, if any.**
- (5) **Use of Non-programmable calculators is only permitted.**
- (6) **Graph Paper will be provided.**
- (7) **Action Verb Check List with definitions is attached. Each question begins with an action verb excluding OTQ's. Candidates should answer the questions based on the definition of the verb given in the Action Verb Check List.**
- (8) **100 Marks.**

No. of Pages : 07
No. of Questions : 06

SECTION A

Objective Test Questions (OTQs)

Twenty (20) compulsory questions

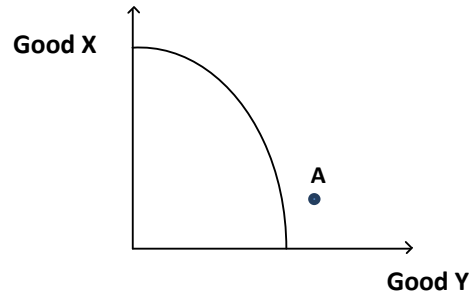
(Total 40 marks)

Question 01

Select the most correct answer for question No. 1.1 to 1.10. Write the number of the selected answer in your answer booklet with the number assigned to the question.

- 1.1** Which one of the following statements best explains the subject matter of “Macroeconomics”?
- (1) Macroeconomics is the science that studies the human behaviour as a relationship between resources and alternative uses of limited resources.
- (2) Macroeconomics analyses with how an individual consumer spends income to maximize satisfaction.
- (3) Macroeconomics analyses the behavior of the economy as a whole and not just on specific companies, but entire industries and economies.
- (4) Macroeconomics explains the issues raised by a mixed economy.

1.2 The following diagram shows the production possibility curve of a country.



Of the following, what is the most suitable explanation for the situation represented by point A above?

- | | |
|-------------------------------------|-------------------------------|
| (1) Economic growth. | (2) Unattainable combination. |
| (3) Under utilization of resources. | (4) Full employment. |

1.3 The “Law of Demand” states:

- (1) The relationship between the price and the quantity, while the factors that affect the supply remain unchanged.
- (2) The relationship between the quantity demanded and the change in income.
- (3) The relationship between the quantity demanded and the price of the good while the other factors that affect the demand remain unchanged.
- (4) The relationship between the quantity demanded and the change in supply at the market.

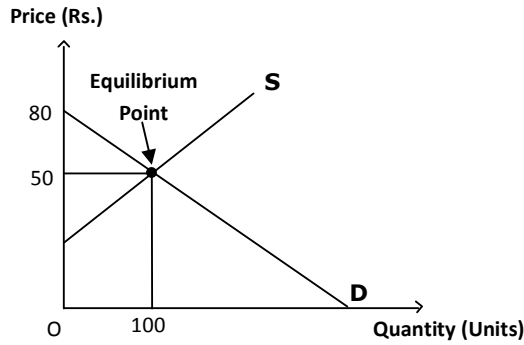
1.4 The term “derived demand” explains:

- (1) Demand for a good is derived from the availability of another good.
- (2) Demand for a factor of production depends on the demand for the final good to which it contributes.
- (3) Supply of a good creates the demand for another consumer good.
- (4) None of the above.

1.5 Profit is the reward received:

- (1) by the government for supplying the public goods for the society.
- (2) by a consumer for purchasing a good at the lowest price.
- (3) by an entrepreneur for his special creative ability.
- (4) by a producer for saving money in a bank.

1.6 The following diagram shows demand and supply curves for a commodity:



The producer surplus is:

- (1) Rs.2,500/- (2) Rs.1,500/- (3) Rs.5,000/- (4) Rs.3,000/-

1.7 According to the Annual Report of the Central Bank of Sri Lanka for the year 2014, the unemployment rate in Sri Lanka for the year 2014 as a percentage of labour force was:

- (1) 5.3% (2) 4.3% (3) 7.6% (4) 5.6%

1.8 Broad money supply (M2) consists of:

- (1) The aggregate of the currency held by public and time and savings deposits held by public at commercial banks.
- (2) The aggregate of the currency held by public, the demand deposits held by public at commercial banks and time and savings deposits held by public at commercial banks.
- (3) The aggregate of the currency held by public and the deposits held by commercial banks at the Central Bank.
- (4) The aggregate of the currency held by public and the demand deposits held by the public at commercial banks.

1.9 What is meant by “Open Market Operations”?

- (1) The deposit that a commercial bank has to keep with the Central Bank.
- (2) The purchase and sale of Treasury Bills by the Central Bank in the open market.
- (3) The purchase and sale of commercial papers by the Central Bank in the open market.
- (4) None of the above.

1.10 Which one of the following is a capital expenditure of the government?

- (1) Payment of monthly salaries and wages for employees in the government.
- (2) Annual spending on school materials used.
- (3) Rental payment for an office building by the government.
- (4) Government expenditure on construction of a school building.

State whether each of the following statements from question No.1.11 to 1.15 is **TRUE** or **FALSE**. Write the selected answer (True/False) in your answer booklet with the number assigned to the question.

- 1.11 A fall in the demand for a commodity causes a decrease in both the equilibrium price and the equilibrium quantity.
- 1.12 A firm under perfect competition earns supernormal profits in the long run as well as in the short run.
- 1.13 The marginal cost of production is the additional cost incurred in producing one extra unit of output.
- 1.14 Savings and time deposits in bank accounts are considered as injections into the circular flow of national income.
- 1.15 Countries impose tariffs on imported goods to protect domestic industries from foreign competition.

Select the correct word/words from those given within brackets to fill in the blanks of question No. 1.16 to 1.18. Write the selected word/words in your answer booklet with the number assigned to the question.

- 1.16 (Economic growth / Economic development) is the quantitative as well as the qualitative improvement of the economy.
- 1.17 Economic growth is usually calculated in (real / nominal) terms.
- 1.18 If the cross price elasticity of demand for two goods is positive, the goods are (substitutes /complements).

The following data should be used to answer questions 1.19 and 1.20. Write short answers to each of the questions in your answer booklet, with the number assigned to the question.

Suppose the output that two countries, United Kingdom and Japan, can obtain from two products, Potatoes and Pepper by using one unit of labour per day are given in the following table.

Country	Potatoes (Kilograms)	Pepper (Kilograms)
United Kingdom	12	6
Japan	2	4

- 1.19 (a) Which country has the absolute advantage in producing Potatoes?
(b) Which country has the absolute advantage in producing Pepper?
- 1.20 (a) Which country has the comparative advantage in producing Potatoes?
(b) Which country has the comparative advantage in producing Pepper?

(02 marks each, Total 40 marks)

End of Section A

SECTION B

Four (04) compulsory questions

(Total 40 marks)

Question 02

- (a) **Explain** with examples, the term “Economic Resources”. (05 marks)
- (b) (i) **Identify** the difference between “Opportunity cost” and “Accounting cost”. (03 marks)
- (ii) **State** an example each to differentiate the above two terms. (02 marks)
- (Total 10 marks)

Question 03

- (a) **Explain** with the help of a graph, how the free market determines the market equilibrium. (06 marks)
- (b) **Explain** four(04) importances of demand and supply concepts in business operations. (04 marks)
- (Total 10 marks)

Question 04

- (a) **State** four(04) characteristics of Monopolistic Competition. (04 marks)
- (b) **Explain** the three(03) motives for demanding money. (06 marks)
- (Total 10 marks)

Question 05

- (a) **List** four(04) main objectives of the government budget. (04 marks)
- (b) **Explain** the consequences of imposing a minimum purchasing price (price floor) above the equilibrium price for an agricultural product by the government. (06 marks)
- (Total 10 marks)

End of Section B

SECTION C

A compulsory question.

(Total 20 marks)

Question 06

(a) The usual definition of the national income is “the total value of the goods and services produced by a country’s resources during a year”. In order to make meaningful comparisons between years, allowance is made for inflation. This enables real changes to be identified. National income can be used for a variety of purposes. However, it has its own limitations.

(i) **State** three(03) uses of National Income Accounting. (03 marks)

(ii) **State** five(05) limitations of National Income Accounting. (05 marks)

(b) You are provided with the following data pertaining to country *x* in relation to National Income.

	Rs. million
Exports	10
Imports	12
Government consumption	7
Gross domestic capital formation	8
Private consumption	30
Net factor income from abroad	(1)
Taxes on expenditure	6
Subsidies	2

(i) **Compute** the Gross Domestic Product (GDP) at factor cost price.

(ii) **Compute** the Gross National Product (GNP) at factor cost price. (06 marks)

(c) **Explain** with the help of graphs, the difference between “demand-pull inflation” and “cost push inflation”. (06 marks)

(Total 20 marks)

ACTION VERB CHECK LIST

Knowledge Process	Verb List	Verb Definitions
Level 01 Comprehension Recall & explain important information	Define	Describe exactly the nature, scope, or meaning.
	Draw	Produce (a picture or diagram).
	Identify	Recognize, establish or select after consideration.
	List	Write the connected items one below the other.
	Relate	To establish logical or causal connections.
	State	Express something definitely or clearly.
	Calculate/Compute	Make a mathematical computation
	Discuss	Examine in detail by argument showing different aspects, for the purpose of arriving at a conclusion.
	Explain	Make a clear description in detail revealing relevant facts.
	Interpret	Present in an understandable terms.
	Recognize	To show validity or otherwise, using knowledge or contextual experience.
	Record	Enter relevant entries in detail.
Summarize	Give a brief statement of the main points (in facts or figures).	

Knowledge Process	Verb List	Verb Definitions
Level 02 Application Use knowledge in a setting other than the one in which it was learned / Solve closed-ended problems	Apply	Put to practical use.
	Assess	Determine the value, nature, ability, or quality.
	Demonstrate	Prove, especially with examples.
	Graph	Represent by means of a graph.
	Prepare	Make ready for a particular purpose.
	Prioritize	Arrange or do in order of importance.
	Reconcile	Make consistent with another.
	Solve	To find a solution through calculations and/or explanation.

Knowledge Process	Verb List	Verb Definitions
Level 03 Analysis Draw relations among ideas and compare and contrast / Solve open-ended problems.	Analyze	Examine in detail in order to determine the solution or outcome.
	Compare	Examine for the purpose of discovering similarities.
	Contrast	Examine in order to show unlikeness or differences.
	Differentiate	Constitute a difference that distinguishes something.
	Outline	Make a summary of significant features.