



ASSOCIATION OF ACCOUNTING TECHNICIANS OF SRI LANKA

AA1 EXAMINATION - JULY 2017

(AA13) ECONOMICS FOR BUSINESS AND ACCOUNTING

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

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

22-07-2017
Afternoon
[1.45 – 5.00]

- (2) **All questions should be answered.**

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No. of Questions : 06

- (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) **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.**

- (7) 100 Marks.

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.

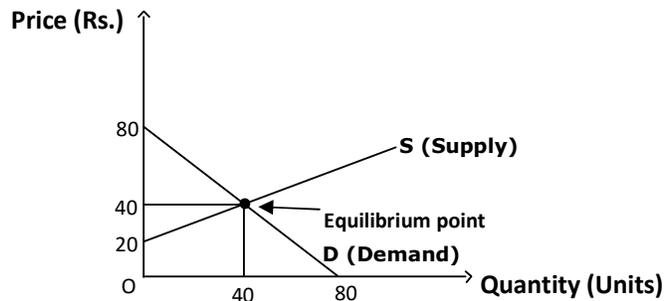
1.1 Which one of the following statements best explains the scope of “Micro-economics”?

- (1) It deals with the economy as a whole.
- (2) It studies the economic behavior of individual decision making units.
- (3) It deals only with decisions of the consumers.
- (4) It deals only with problems faced by the market economy.

1.2 Which one of the following is **not** an assumption used for the production possibility curve?

- (1) There is full employment of resources.
- (2) Only two types of goods are produced.
- (3) Resources are unlimited.
- (4) It is prepared for a given period of time.

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



The producer surplus is:

- (1) Rs.800/-
- (2) Rs.1,200/-
- (3) Rs.1,600/-
- (4) Rs.400/-

1.4 The satisfaction of a person from consuming a good is called:

- (1) Marginal utility.
- (2) Utility.
- (3) Opportunity cost.
- (4) Total utility.

1.5 At the minimum point of the Average Total Cost (ATC) curve, the Marginal Cost (MC) is:

- (1) equal to Average Variable Cost.
- (2) equal to Average Total Cost.
- (3) equal to Average Fixed Cost.
- (4) higher than the Average Total Cost.

1.6 Select from the following the correct statement in relation to the price floor (minimum price) imposed by the government in the free market system:

- (1) It is used by the government to protect consumers.
- (2) It is used by the government to protect producers.
- (3) It leads to increase in quantity demanded and decrease in quantity supplied.
- (4) All of the above.

1.7 If the Colombo Consumer Price Index for the year 2015 was 132 and it was 142 for the year 2016, the rate of inflation that prevailed between the two years was:

- (1) 9.57%
- (2) 10.12%
- (3) 5.67%
- (4) 7.57%

1.8 According to the Annual Report of the Central Bank of Sri Lanka for the year 2016, the Economic Growth rate in Sri Lanka for the year 2016 was:

- (1) 4.4% (2) 6.0% (3) 4.8% (4) 3.9%

1.9 Which one of the following is **not** a sub account of the current account in the Balance of Payment?

- (1) Trade account. (2) Income account.
(3) Service account. (4) Foreign investment account.

1.10 The main reason for the government to intervene in a free market economy is:

- (1) to increase revenue of the government.
(2) to increase foreign exchange earnings.
(3) to increase the money supply of the country.
(4) to achieve a fair distribution of income and wealth.

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

- 1.11** When the price of good **A** decreases, the demand for good **B** increases. The goods **A** and **B** are said to be substitute goods.
- 1.12** All the factors of production are variable in the short run.
- 1.13** When the demand is relatively inelastic, the larger proportion of the tax burden is borne by the consumers.
- 1.14** Black market activities and underground activities are included when calculating the Gross Domestic Product (GDP).
- 1.15** The internal real value of money is the quantity of goods and services that can be purchased in the domestic market with a unit of money.

Select the correct word/words from those given within brackets to fill in the blanks of question No. 1.16 to 1.20. Write the selected word/words in your answer booklet with the number assigned to the question.

- 1.16** When the total utility is maximized, the marginal utility will be (*negative / zero*).
- 1.17** Precautionary motive for demanding money is (*negatively / positively*) related to real income and inflation.
- 1.18** Lending money in the form of loans or overdrafts to public is a function of (*the Central Bank / Commercial Banks*).
- 1.19** Development that meets the needs of the present without compromising the ability of future generations to meet their own needs is known as (*Economic Development / Sustainable Development*).
- 1.20** The rate of unemployment is the ratio of the number of people (*employed / unemployed*) to the number in the labour force. (02 marks each, Total 40 marks)

End of Section A

SECTION B

Four (04) compulsory questions

(Total 40 marks)

Question 02

(a) **Explain** with an example the term “Non-Economic Resources”. (03 marks)

(b) You are provided with the following demand schedule for a commodity:

Price (Rs. Per unit)	Quantity (Units)
10	20
9	25
8	30
7	35

Calculate the Price Elasticity of Demand of the commodity, when price of the commodity decreased to Rs.9/- from Rs.10/-. (03 marks)

(c) **State** four(04) differences between Perfect Competition and Monopoly. (04 marks)
(Total 10 marks)

Question 03

(a) “The demand for factors of production is a derived demand.”

(i) **State** whether you agree with the above statement. (01 mark)

(ii) **Explain** the reasons for your answer. (03 marks)

(b) **Explain** the three(03) types of returns to scale. (06 marks)
(Total 10 marks)

Question 04

(a) (i) **State** four(04) characteristics of Good Money. (04 marks)

(ii) **Explain** what is meant by “Demand for Money”. (03 marks)

(b) **State** three(03) functions of the Central Bank of Sri Lanka. (03 marks)
(Total 10 marks)

Question 05

(a) **Explain** the consequences of imposing a maximum price for a commodity by the government below the equilibrium price. (06 marks)

(b) **State** four(04) advantages of protectionism in international trade. (04 marks)
(Total 10 marks)

End of Section B

SECTION C

A compulsory question.

(Total 20 marks)

Question 06

An economic system is an operating system in a society to solve the basic economic problems. There are different economic systems in practice with wide variations of the degree of features of each system.

- (A) (a) **List** three(03) main types of economic systems. (03 marks)
- (b) **Explain** how the basic economic problems are solved by any one of those economic systems listed under (a). (06 marks)

- (B) The table below shows hypothetical data relating to national accounts of an economy for the year 2016, at Factor Cost Prices:

	Rs. million
Agriculture, Livestock and Forestry	250
Fishing	120
Mining and Quarrying	75
Manufacturing	100
Electricity, Gas and Water	200
Construction	80
Wholesale and Retail Sale	150
Hotels and Restaurants	100
Transport and Communication	160
Banking, Insurance and Real Estate	135
Ownership of Dwellings	200
Government Services	160
Private Services	250

The following additional information is also provided:

- (1) Indirect taxes and subsidies for the year 2016 were Rs.150 million and Rs.100 million respectively.
- (2) Base year is 2010 and Price Index for the year 2016 was 125.

You are required to:

Calculate the following for the year 2016:

- (a) Gross Domestic Product (GDP) at Factor Cost Prices. (05 marks)
- (b) Gross Domestic Product (GDP) at Market Prices. (03 marks)
- (c) Real Gross Domestic Product (Real GDP). (03 marks)

(Total 20 marks)

End of Section C

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.