



ASSOCIATION OF ACCOUNTING TECHNICIANS OF SRI LANKA

AA1 EXAMINATION - JANUARY 2018

(AA13) ECONOMICS FOR BUSINESS AND ACCOUNTING

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

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

27-01-2018
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 : 06
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 Limited availability of resources to meet human needs and wants is known as:

- (1) Scarcity. (2) Opportunity cost.
(3) Economies of Scale. (4) Choice.

1.2 Which one of the following is a characteristic of an indifference curve?

- (1) Two indifference curves do not intersect with each other.
(2) An indifference curve slopes downward from left to right.
(3) The slope of the indifference curve is known as the Marginal Rate of Substitution (MRS).
(4) All of the above.

1.3 Which one of the following is **not** a characteristic of perfect competition?

- (1) There are large number of sellers.
- (2) It sells homogeneous products.
- (3) Any seller is free to enter the market at any time.
- (4) It earns only normal profits in the short run.

1.4 Select from the following, the **incorrect** statement in relation to the long run:

- (1) Factors of production are divided as fixed factors and variable factors.
- (2) The firm is able to change all the factors.
- (3) There are no fixed factors of production.
- (4) Returns to scale operate in the long run.

1.5 The aggregate of Narrow Money Supply and time and saving deposits held by the public at commercial banks is known as:

- (1) Monetary base.
- (2) Broad Money Multiplier.
- (3) Consolidated Broad Money Supply.
- (4) Broad Money Supply.

1.6 Which one of the following is **not** a function of commercial banks?

- (1) Accepting deposits from public.
- (2) Providing safety vaults for individuals.
- (3) Providing credit facilities.
- (4) Currency issuance and management.

1.7 Which one of the following is **not** a motive for demanding money?

- (1) Transactions motive.
- (2) Cost motive.
- (3) Precautionary motive.
- (4) Speculative motive.

1.8 Which one of the following is an instrument of the quantitative control for the monetary policy of the Central Bank of Sri Lanka?

- (1) Portfolio ceilings.
- (2) Provision of refinance facilities.
- (3) Bank rate policy.
- (4) Moral suasion.

1.9 The banks have to face the challenge of maintaining the balance between:

- (1) Liquidity and interest rate.
- (2) Liquidity and profitability.
- (3) Profitability and deposits.
- (4) Profitability and inflation.

1.10 According to the Annual Report of the Central Bank of Sri Lanka for the year 2016, the per capita income in Sri Lanka for the year 2016 was:

- (1) US \$ 3,821/-. (2) US \$ 3,924/-. (3) US \$ 3,280/-. (4) US \$ 3,835/-.

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 proportionate increase in output is higher than the proportionate increase in inputs there will be decreasing returns to scale.
- 1.12** Marginal cost refers to the cost per unit of output in the given period.
- 1.13** A main objective of the Central Bank of Sri Lanka is maintaining economic and price stability.
- 1.14** When a firm is maximizing profit, its Marginal Revenue (MR) is equal to Marginal Cost (MC).
- 1.15** The Central Bank of Sri Lanka stipulates that the commercial banks should keep a certain proportion of deposits as reserves.

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** In a (*market / planned*) economy, the fundamental economic problems are resolved through the use of price mechanism.
- 1.17** When the (*marginal production / average production*) becomes zero, the total production is maximized.
- 1.18** (*Producers' surplus / Consumers' surplus*) is the difference between the equilibrium price of a commodity, and the price at which the supplier is prepared to sell.
- 1.19** Gross Domestic Product at constant prices (2002) is Rs.2,500 billion for year 2015 and Gross Domestic Product at constant prices (2002) is Rs.2,600 billion for the year 2016. Economic growth rate in 2016 is (*2% / 4%*).
- 1.20** The increase of real Gross Domestic Product of an economy over the time is known as (*Economic Development / Economic Growth*).

(02 marks each, Total 40 marks)

End of Section A

SECTION B

Four (04) compulsory questions

(Total 40 marks)

Question 02

- (a) **Explain** the four(04) factors of production (economic resources). (06 marks)
- (b) You are given the following demand (Q_d) and supply equations (Q_s) for a commodity.

$$Q_d = 100 - 2p$$

$$Q_s = -50 + 3p.$$

Qd =	Quantity Demanded
Qs =	Quantity Supplied
P =	Price

- (i) **Calculate** the Equilibrium Price of the commodity. (02 marks)
- (ii) **Calculate** the Equilibrium Quantity of the commodity. (02 marks)

(Total 10 marks)

Question 03

- (a) **Explain** what is meant by the “law of Diminishing Marginal Utility” with an example. (06 marks)
- (b) **State** four(04) determinants of demand. (04 marks)

(Total 10 marks)

Question 04

- (a) **State** four(04) characteristics of the Government Budget. (04 marks)
- (b) **Explain** the consequences of imposing a unit tax for a commodity by the government as an indirect tax. (06 marks)

(Total 10 marks)

Question 05

- (a) **Explain** the difference between comparative advantage and absolute advantage. (04 marks)
- (b) **Explain** three(03) disadvantages of international trade. (06 marks)

(Total 10 marks)

End of Section B

SECTION C

A compulsory question.

(Total 20 marks)

Question 06

- (A) You are given the following hypothetical data relating to national accounts of an economy for one year period:

	Rs. million
Private Consumption Expenditure	1,000
Government Consumption Expenditure	1,500
Gross Domestic Capital Formation	2,500
Net Exports	1,300
Net factor income from abroad (Net foreign primary income)	650
Capital Depreciation	500

Using the above information,

You are required to,

Calculate the following:

- (a) Gross Domestic Expenditure. (04 marks)
- (b) Gross Domestic Product (GDP) at market prices. (02 marks)
- (c) Gross National Product (GNP) at market prices. (02 marks)
- (d) Net National Product (NNP) at market prices. (02 marks)

- (B) In a country there are two main macro-economic policies as Monetary Policy and Fiscal Policy.

You are required to,

Explain what is meant by the Fiscal Policy with an example for the fiscal policy instruments.

(04 marks)

- (C) A persistent rise in the general price level of a country is known as inflation. Demand pull inflation and cost push inflation are main causes of inflation.

You are required to:

- (a) **Explain** the demand pull inflation. (03 marks)
- (b) **State** three(03) steps to be taken by a country for reducing the inflation. (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.