



ASSOCIATION OF ACCOUNTING TECHNICIANS OF SRI LANKA

AA1 EXAMINATION - JULY 2019

(AA13) ECONOMICS FOR BUSINESS AND ACCOUNTING

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

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

27-07-2019  
Afternoon  
[1.45 – 5.00]

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

- (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.**

**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** The payment for the use of land is known as:

- (1) Profit.                      (2) Rent.                      (3) Interest.                      (4) Wage.

**1.2** Which one of the following is a determinant of demand?

- (1) Prices of substitutes.                      (2) Consumer's income.  
(3) Climate factors.                      (4) All of the above.

**1.3** Which of the following is **not** a characteristic of a firm in the oligopoly?

- (1) There are only limited number of sellers.
- (2) There are no barriers to entry.
- (3) Products are homogeneous or differentiated.
- (4) Existence of price rigidity.

**1.4** The additional cost incurred to produce an extra unit of output is:

- (1) Marginal cost.
- (2) Total cost.
- (3) Average cost.
- (4) Variable cost.

**1.5** Select the correct statement with reference to the short run of a firm:

- (1) Factors of production are divided as fixed factors and variable factors.
- (2) There are no fixed factors.
- (3) Average cost curve is determined by economies of scale.
- (4) A firm is able to change all inputs.

**1.6** According to the Annual Report of the Central Bank of Sri Lanka for the year 2018, the Economic Growth rate in Sri Lanka for the year 2018 was:

- (1) 4.4%
- (2) 6%
- (3) 3.2%
- (4) 4.8%

**1.7** Which one of the following is a qualitative control of the monetary policy of the Central Bank of Sri Lanka?

- (1) Portfolio ceilings.
- (2) Bank rate policy.
- (3) Open market operations.
- (4) Variable reserve ratio policy.

**1.8** Which one of the following is **not** a function of the Central Bank of Sri Lanka?

- (1) Public debt management.
- (2) Providing loans and overdraft facilities.
- (3) Foreign exchange management.
- (4) Currency issue and management.

**1.9** An example for a withdrawal (leakage) from national flow of income is:

- (1) Investment.
- (2) Government expenditure.
- (3) Exports.
- (4) Imports.

**1.10** Which one of the following is **not** a Macro Economic Variable?

- (1) Overall production.
- (2) Balance of payment.
- (3) General price level.
- (4) Market equilibrium.

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 Act as a standard of deferred payment is a function of money.
- 1.12 The real external value of money means the quantity of goods and services that can be purchased in the domestic market with a unit of money.
- 1.13 Income elasticity of demand for an essential good is less than one.
- 1.14 The price at which the firm can just cover its average total cost is known as shut down price.
- 1.15 Products are differentiated in monopolistic competition.

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 There is ..... [*an inverse (negative) / a direct (positive)*] relationship between price and quantity demanded.
- 1.17 Marginal Product (MP) curve intersects the Average Product (AP) curve at the ..... (*minimum / maximum*) point of the AP curve.
- 1.18 By selling treasury bills/bonds, the Central bank could ..... (*increase / decrease*) the money supply.
- 1.19 Acquisition of real assets is an example for a ..... (*current / capital*) expenditure by the government.
- 1.20 ..... (*Technological development / Inflation*) is a critical factor that helps the structural change of a country. (02 marks each, Total 40 marks)

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End of Section A

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## **SECTION B**

Four (04) compulsory questions

(Total 40 marks)

### **Question 02**

- (a) (i) **State** the four(04) main economic resources (factors of production) of an economy. (02 marks)
  - (ii) **Explain** any two(02) of the above. (02 marks)
  - (b) There are three basic economic problems of an economy. They are, for whom to produce? what to produce in what quantity? and how to produce?  
**Explain** how each of the above basic economic problems is solved by market (capitalist) economy and planned (socialist) economy. (06 marks)
- (Total 10 marks)

### Question 03

(a) You are given the following demand (Qd) and supply (Qs) equations for a commodity:

$$Q_d = 400 - 2P$$

$$Q_s = -100 + 3P$$

- (i) **Calculate** the equilibrium price of the commodity. (02 marks)
- (ii) **Calculate** the equilibrium quantity of the commodity. (01 mark)
- (b) (i) **Explain** a reason as to why the demand curve slopes downwards. (03 marks)
- (ii) **Explain** the concepts of consumer's surplus and producer's surplus with the help of a graph. (04 marks)
- (Total 10 marks)

### Question 04

- (a) (i) **State** two(02) sources of financing the budget deficit. (02 marks)
- (ii) **State** two(02) advantages of public enterprises. (02 marks)
- (b) **Explain** the three(03) motives for demand for money. (06 marks)
- (Total 10 marks)

### Question 05

The following table shows the kilograms of Onion and Garlic produced by Pakistan and India by using one unit of resources:

Country	Onion (Kilograms)	Garlic (Kilograms)
Pakistan	24	12
India	4	8

- (a) (i) **Explain** which country has the absolute advantage in the production of each product respectively. (02 marks)
- (ii) **Explain** which country has the comparative advantage in the production of each product respectively. (04 marks)
- (b) **Explain** two(02) advantages of international trade. (04 marks)
- (Total 10 marks)

End of Section B

## SECTION C

A compulsory question

(Total 20 marks)

### Question 06

- (A) (a) **Explain** the consequences of terrorist attack on 21<sup>st</sup> April 2019 (Easter Sunday attack) to Sri Lankan economy. (06 marks)
- (b) **State** two(02) purposes of indirect taxes. (02 marks)

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

	Rs. Million
Agriculture, Forestry and Fishing	3,000
Manufacturing, mining and quarrying and other industries	2,600
Construction	2,000
Wholesale and retail trade, transportation, storage, accommodation and food service activities	4,500
Information and communication	2,000
Financial and insurance activities	2,500
Real estate activities including ownership of dwelling	1,200
Professional services and other personal service activities	2,000
Public administration, defense, education, human health and social work activities	10,500
Taxes on products	1,500
Subsidies on products	1,000

Using the above information,

**You are required to,**

**Calculate** the following:

- (a) Gross Value Added (GVA) at basic price. (06 marks)
- (b) Gross Domestic Product (GDP) at market price. (03 marks)
- (C) **State** three(03) reasons for the importance of preparing national accounts. (03 marks)

(Total 20 marks)

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*End of Section C*

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## ACTION VERB CHECK LIST

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

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

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