



ASSOCIATION OF ACCOUNTING TECHNICIANS OF SRI LANKA

LEVEL I EXAMINATION - JULY 2021

(103) ECONOMICS

30-10-2021

Afternoon

[02.00 - 5.00]

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

- (1) **Time:** 03 hours. No. of Pages : 06
- (2) **All questions should be answered.** 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) **Graph Paper will be provided.**
- (7) **Action Verb Check List with definitions is attached. Each question will begin 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)

(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 is a component of Micro-Economics?

- | | |
|-----------------------|------------------------------|
| (1) Aggregate output. | (2) Consumers or households. |
| (3) Inflation. | (4) Unemployment level. |

1.2 The additional satisfaction that a person derives by consuming an additional unit of a good over a given period of time is called as:

- | | |
|-----------------------|--------------------|
| (1) Total Utility. | (2) Marginal Cost. |
| (3) Marginal Utility. | (4) Total Cost. |

1.3 When the percentage (%) change in quantity demanded is less than the percentage change in the price of the given good, then the demand of the given good is:

- | | |
|----------------------|------------------------|
| (1) Inelastic. | (2) Elastic. |
| (3) Unitary Elastic. | (4) Perfectly Elastic. |

1.4 Which of the following is **not** a characteristic of a Planned Economic System?

- (1) Basic economic problems are solved based on a central planning system.
- (2) Property ownership is held by the state.
- (3) Existence of fair income distribution.
- (4) Existence of consumer sovereignty.

1.5 A factor that shifts the supply curve to the left is:

- (1) Improvement in technology.
- (2) Decrease in the prices of factors used in the production.
- (3) Production subsidies given by the government.
- (4) Expectation of producers that the price of the product will increase in the future.

1.6 Which one of the following is a quantitative instrument of monetary policy of the Central Bank of Sri Lanka?

- (1) Reserve rate policy.
- (2) Setting a maximum maturity period for loans.
- (3) Setting limits for guarantees.
- (4) Moral suasion.

1.7 Which one of the following is **not** a sub market of the money market?

- (1) Treasury Bills' Market.
- (2) Commercial Papers' Market.
- (3) Interbank call Money Market.
- (4) Colombo Stock Exchange.

1.8 Which one of the following is **not** a function of money?

- (1) A medium of controlling inflation.
- (2) A store of value.
- (3) A unit of account.
- (4) A standard of deferred payment.

1.9 The aggregate of broad money supply, 50% of time and savings deposits of non-residents' foreign currency accounts and time & savings deposits of residents' foreign currency banking units is known as:

- (1) Narrow Money Supply.
- (2) Base Money.
- (3) Consolidated Broad Money Supply.
- (4) Very Broad Money Supply.

1.10 According to the Annual Report of the Central bank of Sri Lanka for the year 2020, the Economic Growth in Sri Lanka for the year 2020 was:

- (1) 2.4%. (2) -3.6%. (3) 1.3%. (4) -1.8%.

Select the correct word/words from those given within brackets to fill in the blanks of question No. **1.11** and **1.12**. Write the selected word/words in your answer booklet with the number assigned to the question.

1.11 An assumption of the production possibility curve is that technology is
(constant / changing).

1.12 Efficiency and stability are sub-components of (economic / social) aspect of Sustainable Development.

State whether each of the following statements from **1.13** and **1.14** is **True** or **False**. Write the answer (True/False) in your answer booklet with the number assigned to the question.

1.13 An oligopoly is a market structure which has large number of buyers and sellers in the market.

1.14 "Economic Depreciation" is an example for indirect cost.

Write the answers for question No. **1.15** to **1.20** in your answer booklet with the number assigned to the question.

1.15 State two(02) factors that determine the Demand.

1.16 State two(02) reasons for inverse (negative) relationship between price and quantity demanded.

1.17 State two(02) determinants of price elasticity of supply.

1.18 State two(02) stages of Returns to Scale.

1.19 Briefly explain the difference between Accounting Profit and Economic Profit.

1.20 Briefly explain what is meant by the Short-run Production Process.

(02 marks each, Total 40 marks)

End of Section A

SECTION B

(Total 40 marks)

Question 02

(a) **List** three(03) main characteristics of a Mixed Economic System. (03 marks)

(b) **Explain** how the basic economic problems are solved by the Market Economic System. (04 marks)

(c) **Explain** the difference between needs and wants with an example for each. (03 marks)

(Total 10 marks)

Question 03

- (a) The demand equation (Qd) and supply equation (Qs) for **Product A** are as follows:

$$Q_d = 16,600 - 3P$$

$$Q_s = -6,000 + 2P$$

Using the above information,

You are required to:

Calculate the equilibrium price and quantity. (04 marks)

- (b) **Explain** the consequences of imposing a maximum price below the equilibrium price for a commodity by the government with the help of a graph. (06 marks)
(Total 10 marks)

Question 04

- (a) **List** four(04) characteristics of a Perfectly Competitive Market. (04 marks)
- (b) **Explain** three(03) consequences of inflation for a country like Sri Lanka. (06 marks)
(Total 10 marks)

Question 05

- (a) "A country controls its imports by way of tariffs".
State two(02) other methods used to control the international trade by a country. (02 marks)
- (b) **Country X** and **Country Y** produce both rice and wheat. The following table shows the units of rice and wheat that both countries produce by one unit of labour:

Product Country	Rice (kilograms)	Wheat (kilograms)
X	8	2
Y	4	4

- (i) **State** which country has the absolute advantage in the production of each product. (02 marks)
- (ii) **State** which country has the comparative advantage in the production of each product (*support with the calculations*). (04 marks)
- (c) **State** two(02) components of current account of the Balance of Payment. (02 marks)
(Total 10 marks)

End of Section B

SECTION C

(Total 20 marks)

Question 06

(A) (a) **Explain** the difference between recurrent expenditure and capital expenditure in the Government Budget. (03 marks)

(b) **Explain** what is meant by an Indirect Tax. (02 marks)

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

	Rs. million
Compensation of Employees	7,500
Gross Operating Surplus	13,600
Mixed Income	1,200
Other Taxes less Subsidies on Production	150
Net Tax on Production and Imports	2,000
Net Foreign Primary Income	(1,400)

You are required to:

Calculate the following using the Income Approach:

(i) Gross Value Added (GVA) at basic price. (05 marks)

(ii) Gross Domestic Product (GDP) at market price. (02 marks)

(iii) Gross National Income (GNI) at market price. (02 marks)

(b) **List** four(04) importances of preparing national accounts. (04 marks)

(C) **Explain** the term “Fiscal Policy” of the government. (02 marks)

(Total 20 marks)

End of Section C

ACTION VERBS CHECK LIST

Level of Competency	Description	Action Verbs	Verb Definitions
Knowledge (1)	Recall Facts and Basic Concepts.	Draw	Produce a picture or diagram.
		Relate	Establish logical or causal connections.
		State	Express details definitely or clearly.
		Identify	Recognize, establish or select after consideration.
		List	Write the connected items.

Level of Competency	Description	Action Verbs	Verb Definitions
Comprehension (2)	Explain & Elucidates Ideas and Information.	Recognize	Show validity or otherwise, using knowledge or contextual experience.
		Interpret	Translate into understandable or familiar terms.
		Describe	Write and communicate the key features.
		Explain	Make a clear description in detail using relevant facts.
		Define	Give the exact nature, scope or meaning.

Level of Competency	Description	Action Verbs	Verb Definitions
Application (3)	Use and Adapt Knowledge in New Situations.	Reconcile	Make consistent / compatible with another.
		Graph	Represent by graphs.
		Assess	Determine the value, nature, ability or quality.
		Solve	Find solutions through calculations and/or explanation.
		Prepare	Make or get ready for a particular purpose.
		Demonstrate	Prove or exhibit with examples.
		Calculate	Ascertain or reckon with mathematical computation.
		Apply	Put to practical use.

Level of Competency	Description	Action Verbs	Verb Definitions
Analysis (4)	Draw Connections Among Ideas and Solve Problems.	Communicate	Share or exchange information.
		Outline	Make a summary of significant features.
		Contrast	Examine to show differences.
		Compare	Examine to discover similarities.
		Discuss	Examine in detail by arguments.
		Differentiate	Constitute a difference that distinguishes something.
		Analyze	Examine in details to find the solution or outcome.