



ASSOCIATION OF ACCOUNTING TECHNICIANS OF SRI LANKA

LEVEL I EXAMINATION - JULY 2022

(103) ECONOMICS

27-08-2022

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 of the following is an example for a non-economic resource?

- (1) Food.                      (2) Shelter.                      (3) Building.                      (4) Sunlight.

**1.2** Which of the following is **not** a reason to shift the demand curve to left?

- (1) Increase in price of substitution goods.  
(2) Decrease in consumer income.  
(3) Expectation that the price of the good will decrease in the future.  
(4) Increase in price of complementary goods.

**1.3** For a certain commodity the quantity demanded did not change when the price increases from Rs.10/- to Rs.12/-. Price elasticity of demand for this commodity is:

- (1) Perfectly inelastic.
- (2) Relatively elastic.
- (3) Unitary elastic.
- (4) Perfectly elastic.

**1.4** Select the correct statement with reference to the short-run production process:

- (1) There are no fixed factor inputs.
- (2) Both fixed factor inputs and variable factor inputs are utilized.
- (3) All the factor inputs become fixed factor inputs.
- (4) Variable factor inputs are not changed.

**1.5** According to the Annual Report of the Central bank of Sri Lanka for the year 2021, the Per Capita Income of Sri Lanka for the year 2021 was:

- (1) US \$ 3,604.
- (2) US \$ 3,815.
- (3) US \$ 4,082.
- (4) US \$ 3,945.

**1.6** If the increase in total output is proportionately lesser than the increase in inputs, then the firm is experiencing:

- (1) Increasing returns to scale.
- (2) Decreasing returns to scale.
- (3) Diminishing marginal returns.
- (4) Constant returns to scale.

**1.7** Which one of the following is **not** a characteristic of monopolistic competition?

- (1) Free entry and exit.
- (2) Perfect mobility of factors of production.
- (3) There are homogeneous products.
- (4) Earn normal profits in the long run.

**1.8** Which one of the following is an area covered under the Micro Economics?

- (1) Aggregate output.
- (2) Price level.
- (3) Behaviour of Consumers.
- (4) Employment.

**1.9** Which one of the following is **not** included in Consolidated Broad Money Supply?

- (1) Currency held by the public.
- (2) Demand deposits held by the public.
- (3) Time and savings deposits held by the public in domestic banking units.
- (4) Time and savings deposits of licensed specialized banks.

**1.10** Select the correct statement from the following statements:

- (1) Total utility and marginal utility cannot be measured.
- (2) Total utility is the additional satisfaction received by a person from consuming a good.
- (3) When total utility is increasing, marginal utility is negative.
- (4) When total utility becomes maximum, the marginal utility is zero.

*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** In a ..... (*market / planned*) economic system, the resources are owned by the state.

**1.12** When the ..... (*average production / marginal production*) becomes zero, the total production is maximized.

*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** Two indifference curves intersect with each other.

**1.14** At the minimum point of the Average Cost Curve, Marginal Cost (MC) is equal to Average Cost (AC) in the short-run production process.

*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) characteristics of capital as a production factor.

**1.16** Briefly explain, what is meant by a deficit budget of the government.

**1.17** State two(02) reasons for imposing price controls by the government.

**1.18** State two(02) motives for demand for money.

**1.19** State the difference between Total Product (TP) and Average Product (AP).

**1.20** State two(02) items in the profile of Human development.

(02 marks each, Total 40 marks)

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End of Section A

## **SECTION B**

(Total 40 marks)

### **Question 02**

- (a) **Explain** the term “Opportunity Cost” with an appropriate example. (03 marks)
- (b) **Explain** how the basic economic problems are solved by the mixed economy. (04 marks)
- (c) **State** three(03) characteristics of a monopoly market. (03 marks)
- (Total 10 marks)

### **Question 03**

- (a) The following demand (Qd) function and supply (Qs) function are given relating to **Product A**:

$$Q_d = 1,600 - 5p$$

$$Q_s = -800 + 3p$$

Using the above information:

**You are required to:**

**Calculate** the following of **Product A**:

- (i) The equilibrium price and quantity. (04 marks)
- (ii) Consumer Surplus. (02 marks)
- (b) **Explain** the consequences of imposing a minimum price for a commodity by the government above the equilibrium price. (04 marks)
- (Total 10 marks)

### **Question 04**

- (a) **Explain** the difference between demand pull inflation and cost push inflation. (04 marks)
- (b) **State** two(02) qualitative controls of the monetary policy of the Central Bank of Sri Lanka. (02 marks)
- (c) “International Monetary Fund (IMF) suggests Sri Lanka to tighten its monetary policy to overcome the current economic crisis situation faced by the country.”

**You are required to:**

**Explain** how monetary policy can influence to overcome / reduce the current economic crisis of Sri Lanka. (04 marks)

(Total 10 marks)

## Question 05

- (a) **Country X** and **Country Y** produce both rice and wheat. The following table shows the number of units of rice and wheat which can be produced by one unit of labour by both countries:

Country \ Product	Rice (kilograms)	Wheat (kilograms)
X	6	3
Y	2	4

**Explain** which country has the comparative advantage in the production of each product (support with the calculations). (04 marks)

- (b) **Explain** two(02) reasons for recent devaluation of the Sri Lankan Rupee against US Dollar. (04 marks)
- (c) **State** two(02) advantages of international trade. (02 marks)
- (Total 10 marks)

End of Section B

## SECTION C

(Total 20 marks)

## Question 06

- (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	1,000
Gross Operating Surplus	1,400
Mixed Income	1,200
Other Taxes less Subsidies on Production	750
Foreign Primary Income Payments	1,500
Foreign Primary Income Receipts	1,200
Net Taxes on Production and Imports	500

**You are required to:**

- (a) **Calculate** the following using 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. (03 marks)
- (b) **State** three(03) productive economic activities which are not included in Gross Domestic Product. (03 marks)
- (B) **Explain** the difference between fair distribution of income and full employment as Macro-Economic Objectives. (04 marks)
- (C) **State** three(03) factors that determine the economic growth of a country. (03 marks)

End of Section C

(Total 20 marks)

## **ACTION VERBS CHECK LIST**

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

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

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

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