



ASSOCIATION OF ACCOUNTING TECHNICIANS OF SRI LANKA

LEVEL I EXAMINATION - JANUARY 2024

(103) ECONOMICS

17-02-2024  
Afternoon  
[02.00 – 5.00]

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

- (1) **Time:** 03 hours. No. of Pages : 07
- (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) **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.**
- (7) **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 correctly describes the concept of scarcity?

- (1) Scarcity is the alternative use of resources to produce goods & services.
- (2) Scarcity is the limited availability of resources in relation to unlimited human wants.
- (3) Scarcity is the total satisfaction received by a person consuming a good.
- (4) Scarcity is a different combination of two goods that provide equal satisfaction.

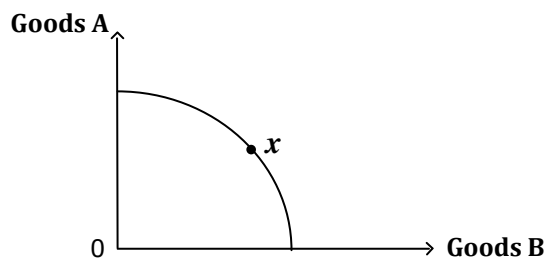
**1.2** Which one of the following is **not** an area covered in the macro-economics?

- (1) Price level.
- (2) Economic growth.
- (3) Aggregate output.
- (4) Consumer behavior at the market.

1.3 Which of the following statements is correct with respect to “Change in Supply”?

- (1) Price of the product changes and other factors of supply remain the same.
- (2) Price of the product changes and other factors of supply also change.
- (3) Price of the product remains constant and the other factors of supply change.
- (4) Price of the product remains constant and the other factors of supply remains the same.

1.4 The following diagram shows the production possibility curve of a country:



Point *x* of the above curve represents:

- (1) Full employment.
- (2) Under-utilization of resources.
- (3) Economic growth.
- (4) Unemployment.

1.5 Consider the following statements:

- (a) Ordinal utility theory assumes that it is not possible to make a comparison of the levels of utility a person gains.
- (b) According to cardinal utility theory, satisfaction is not measurable.
- (c) The marginal utility is the additional satisfaction a person receives by consuming an extra unit of a good

Of the above, the correct statement/s relating to utility theory is/are:

- (1) (a) only.
- (2) (a) and (b) only.
- (3) (c) only.
- (4) (a) and (c) only.

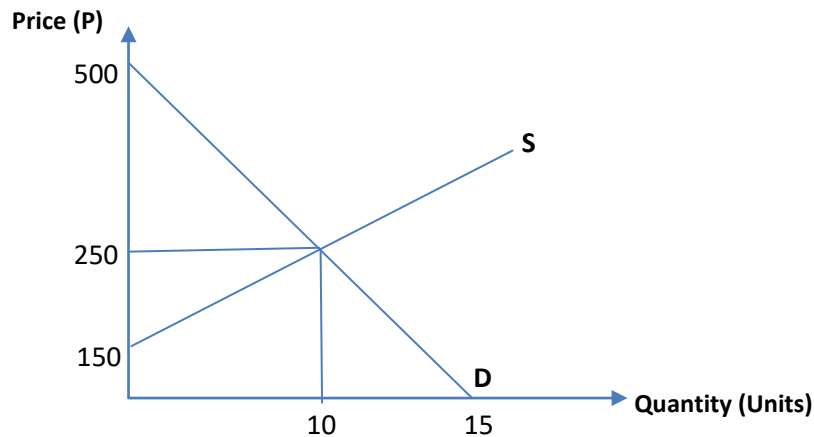
1.6 When the price of a product decreases from Rs.12/- to Rs.10/-, the quantity demanded of that product increases from 900 units to 1,000 units. Price elasticity of demand of the product is:

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

1.7 According to the Annual Report of the Central Bank of Sri Lanka for the year 2022, the Per Capita Income in Sri Lanka for the year 2022 was:

- (1) US \$ 2,000.      (2) US \$ 3,474.      (3) US \$ 2,600.      (4) US \$ 5,574.

1.8 You are given the following graph relating to **Product X**:



The consumer surplus would be:

- (1) Rs.1,250/-.      (2) Rs.500/-.      (3) Rs.1,750/-.      (4) Rs.750/-.

1.9 Which of the following statements is correct with respect to a perfectly competitive firm?

- (1) If price is higher than the average cost, the firm makes normal profits.  
(2) If price is lower than the average cost, the firm makes normal profits.  
(3) If price is equivalent to average cost, the firm makes normal profits.  
(4) If price is equivalent to average cost, the firm makes abnormal profits.

1.10 Which one of the following is a qualitative instrument of monetary policy of the Central Bank of Sri Lanka?

- (1) Bank rate.      (2) Setting limits for loan guarantees.  
(3) Open market operations.      (4) Reserve rate.

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 ..... (A perfectly competitive / A monopolistic) firm acts as a price maker in the market.

1.12 When the proportionate increase in input is lower than proportionate increase in output there will be ..... (increasing/decreasing) returns to scale.

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** Imposition of a unit tax on producers by the government will result to shift the supply curve to the right.

**1.14** All the factor inputs used in the production are variables in the long run.

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

**1.15** Briefly explain the term “Economic Growth”.

**1.16** State two(02) characteristics of a monopolistically competitive market.

**1.17** State two(02) functions of a commercial bank.

**1.18** Briefly explain the “Law of Supply”.

**1.19** State two(02) determinants of price elasticity of supply.

**1.20** Identify two(02) qualitative changes that occur when there is an economic development.

(02 marks each, Total 40 marks)

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End of Section A

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## **SECTION B**

(Total 40 marks)

### **Question 02**

(a) **State** the four(04) factors of production (economic resources). (02 marks)

(b) **Identify** two(02) instances where opportunity cost is zero. (02 marks)

(c) **Explain** the basic economic problems of an economy. (06 marks)

(Total 10 marks)

### **Question 03**

(a) You are given the flowing Demand ( $Q_d$ ) and Supply ( $Q_s$ ) functions for a product:

$$Q_d = 200 - 3p$$

$$Q_s = -100 + 2p$$

**You are required to:**

**Calculate** the market equilibrium price and quantity for the product. (03 marks)

(b) You are given the following information of the production process in the short-run:

Fixed Factor Land (Acres)	Variable Factor (Labour)	Total Product (TP) (Units)
1	0	0
1	1	8
1	2	18
1	3	33
1	4	36

**You are required to:**

- (i) **Calculate** Average Product (AP) and Marginal Product (MP) in units using the above information. (04 marks)
- (ii) **Explain** the behavior of Total Product (TP), Average Product (AP) and Marginal Product (MP) in the short run. (03 marks)  
(Total 10 marks)

#### Question 04

- (a) **Identify** three(03) macro-economic variables which affect the demand for money. (03 marks)
- (b) **Explain** the relationship between price level and rate of interest. (03 marks)
- (c) **Explain** two(02) causes of inflation. (04 marks)  
(Total 10 marks)

#### Question 05

- (a) **Explain** two(02) impacts of trade barriers implemented by Sri Lankan government. (03 marks)
- (b) **State** three(03) disadvantages of currency depreciation of a country. (03 marks)
- (c) Argentina and China produce both corn and rice. The following table shows the units of corn and rice which can be produced by one unit of labour of both the countries:

Country	Corn (Kilograms)	Rice (Kilograms)
Argentina	24	12
China	4	8

**You are required to:**

- Explain** which country has the comparative advantage in the production of each product (support your answer with calculations). (04 marks)  
(Total 10 marks)

End of Section B

## **SECTION C**

(Total 20 marks)

### Question 06

- (A) (a) **Identify** three(03) limitations in national income accounts. (03 marks)
- (b) **Explain** what is meant by “Purchasers’ Price” in national income accounts. (03 marks)
- (B) You are given the following hypothetical data relating to national accounts of an economy for a period of one year:

	<b>Rs. million</b>
Private Consumption Expenditure	2,000
Government’s Consumption Expenditure	6,500
Gross Domestic Fixed Capital Formation	2,500
Changes in Stock	2,700
Exportation of Goods and Services	7,600
Importation of Goods and Services	9,900
Foreign Net Primary Income	500

**You are required to:**

**Calculate** the following:

- (a) Gross Domestic Expenditure (GDE) at market price. (05 marks)
- (b) Gross Domestic Product (GDP) at market price. (03 marks)
- (c) Gross National Income (GNI) at market price. (02 marks)
- (C) **Explain** two(02) implications of recent government taxes to individuals and businesses in Sri Lanka. (04 marks)

(Total 20 marks)

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*End of Section C*

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## **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.