



ASSOCIATION OF ACCOUNTING TECHNICIANS OF SRI LANKA

LEVEL I EXAMINATION - JANUARY 2025

(103) ECONOMICS

08-02-2025  
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 characteristic of non-economic goods?

- |                                     |                                      |
|-------------------------------------|--------------------------------------|
| (1) Existence of a clear ownership. | (2) Zero opportunity cost.           |
| (3) Goods have a price.             | (4) Existence of scarcity in supply. |

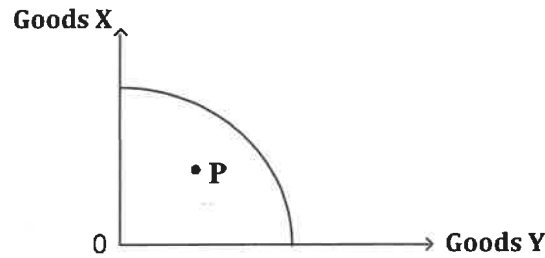
**1.2** Which one of the following statements is **not** correct with reference to the positive economics statements?

- (1) There is an inverse relationship between price and quantity demanded of a commodity.
- (2) The population in Sri Lanka was 23.1 million in 2023.
- (3) Unemployment rate in Sri Lanka for the year 2023 was 4.7%.
- (4) The government should take steps to protect the environment.

**1.3** The additional satisfaction received by a person consuming an extra unit of good is called:

- |                       |                    |
|-----------------------|--------------------|
| (1) Marginal utility. | (2) Total utility. |
| (3) Opportunity cost. | (4) Utility.       |

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



Of the following, the most suitable explanation for the situation represented by point “P” is:

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

1.5 Select the correct statement from the following statements:

- (1) Profit is the reward for capital.
- (2) People make choices because of the scarcity of resources.
- (3) Petroleum and coal are examples for renewable resources.
- (4) Opportunity cost is the alternative use of resources to produce goods and services.

1.6 According to the Annual Economic Review of the Central Bank of Sri Lanka for the year 2023, the Per-Capita Income of Sri Lanka for the year 2023 was:

- (1) US \$ 4,082.
- (2) US \$ 3,982.
- (3) US \$ 3,830.
- (4) US \$ 4,372.

1.7 Which one of the following is a profile of Human Development?

- (1) Income.
- (2) Education.
- (3) Health condition.
- (4) All of the above.

1.8 Which one of the following is a reason to shift the Demand Curve to right?

- (1) Increase in price of substitute goods.
- (2) Increase in price of complementary goods.
- (3) Decrease in Consumers’ income.
- (4) Decrease in price of substitute goods.

1.9 As per the Law of Diminishing Marginal Returns, when the total product becomes maximum:

- (1) The marginal product becomes zero.
- (2) The average product becomes zero.
- (3) The value of average product becomes negative.
- (4) The average product equals to marginal product.



## SECTION B

(Total 40 marks)

### Question 02

- (a) **State** three(03) characteristics of a market economic system. (03 marks)
- (b) Consider the following Demand ( $Q_d$ ) function and Supply ( $Q_s$ ) function given in relation to a commodity:

$$Q_d = 250 - 10p$$

$$Q_s = -50 + 15p$$

**You are required to:**

- (i) **Calculate** the market equilibrium price and quantity for the commodity through a demand and supply schedule. (04 marks)
- (ii) **Calculate** the consumer's surplus. (03 marks)
- (Total 10 marks)

### Question 03

- (a) **Explain** the economic consequences of imposing a maximum price below the equilibrium price by the government for a commodity with the help of a graph. (06 marks)
- (b) You are given the following data of a firm for a product for the last month:
- The firm produced and sold 1,000 units and selling price is Rs.50/- per unit. The firm spent Rs.5,000/- for raw material, Rs.500/- for direct wages and Rs.750/- for other direct costs. Further, this firm has economic depreciation of Rs.1,200/- for the last month.

**You are required to:**

- Calculate** the Accounting Profit and Economic Profit separately. (04 marks)
- (Total 10 marks)

### Question 04

- (a) **Explain** the difference between the Narrow Money Supply ( $M_1$ ) and the Broad Money Supply ( $M_2$ ). (03 marks)
- (b) (i) **Explain** what is meant by "Electronic Money". (02 marks)
- (ii) **State** three(03) reasons for the use of Electronic Money. (03 marks)
- (c) **State** two(02) quantitative monetary policy instruments used by the Central Bank of Sri Lanka. (02 marks)
- (Total 10 marks)

### Question 05

- (a) (i) **Explain** two(02) economic effects of inflation for a country. (04 marks)  
(ii) **State** two(02) steps to be taken by a country to reduce the inflation. (02 marks)
- (b) **India** and **Pakistan** produce both products **Onion** and **Potatoes**. The following table shows the units of **Onion** and **Potatoes** which can be produced by one unit of labour of both countries:

<b>Country \ Product</b>	<b>Onion (in kg)</b>	<b>Potatoes (in kg)</b>
<b>India</b>	18	9
<b>Pakistan</b>	2	4

**You are required to:**

**Identify** 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) **Explain** two(02) macro-economic policies. (04 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>
Compensation of Employees	50,000
Gross Operating Surplus	25,000
Mixed Income	10,000
Other Taxes less Subsidies on Production	5,000
Net Taxes on Production and Imports	4,500
Net Foreign Primary Income	15,000

**You are required to:**

**Calculate** the following using the Income Approach:

- (a) Gross Value Added (GVA) at basic price. (05 marks)  
(b) Gross Domestic Product (GDP) at market price. (02 marks)  
(c) Gross National Income (GNI) at market price. (02 marks)
- (C) **Explain** the difference between a Direct Tax and an Indirect Tax. (03 marks)
- (D) **State** four(04) limitations of National Income Accounts. (04 marks)

(Total 20 marks)

End of Section C

## **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.