



ASSOCIATION OF ACCOUNTING TECHNICIANS OF SRI LANKA

LEVEL I EXAMINATION - JULY 2025

(103) ECONOMICS

02-08-2025
Afternoon
[02.00 – 5.00]

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

- (1) **Time:** 03 hours.
- (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) **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.

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

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 the reward for land?

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

1.2 Select the correct statement from the following:

- (1) Needs are unlimited and wants are limited.
- (2) Scarcity results in choices.
- (3) There is no scarcity in supply for economic resources.
- (4) When resources have alternative uses, the opportunity cost is zero.

1.3 If the coefficient of the cross elasticity of demand between goods **A** and **B** is positive, the goods are:

- (1) Complementary Goods.
- (2) Normal Goods.
- (3) Inferior Goods.
- (4) Substitute Goods.

- 1.4** Which one of the following is the main reason for the government to interfere in the market economy?
- (1) To maximize profitability.
 - (2) To protect consumers / producers.
 - (3) To secure employment in the private sector.
 - (4) All of the above.
- 1.5** According to the Annual Economic Review of the Central Bank of Sri Lanka for the year 2024, the Economic Growth Rate in Sri Lanka for the year 2024 was:
- (1) -7.3%.
 - (2) -2.3%.
 - (3) 5%.
 - (4) 1.5%.
- 1.6** Which one of the following statements is **incorrect** with reference to the characteristics of a market economic system?
- (1) Existence of private entrepreneurial system.
 - (2) Existence of consumer sovereignty.
 - (3) Existence of fair income distribution.
 - (4) Existence of freedom of choice.
- 1.7** Which one of the following is correct with reference to a monopolistically competitive market?
- (1) Existence of a large number of firms in the industry.
 - (2) There is a free entry to the market.
 - (3) It makes normal profits / zero economic profits in the long run.
 - (4) All of the above.
- 1.8** At the minimum point of the Average Total Cost (ATC) curve, the Marginal Cost (MC) is:
- (1) Equal to Average Total Cost.
 - (2) Equal to Average Fixed Cost.
 - (3) Equal to Average Variable Cost.
 - (4) Higher than the Average Total Cost.
- 1.9** Which one of the following is correct with reference to the expansion of quantity supplied?
- (1) Downward movement along the supply curve.
 - (2) Upward movement along the supply curve.
 - (3) Shift in the supply curve to the left.
 - (4) Shift in the supply curve to the right.

1.10 Which one of the following is **not** correct with reference to the short run production process?

- (1) There are variable factors of inputs.
- (2) The factors of production are divided as variable and fixed factors.
- (3) There are no fixed factors of inputs.
- (4) The firms do not have more flexibility in expanding production.

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 According to (Cardinal / Ordinal) Utility Theory, satisfaction cannot be measured.

1.12 (Constant / Changing) technology is an assumption of Production Possibility Curve (PPC).

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

1.13 Marginal cost refers to the cost per unit of output in the given period.

1.14 A perfect competitive firm makes normal / zero economic profits 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 State the difference between “Macro Economics” and “Micro Economics”.

1.16 State the two(02) main causes of inflation.

1.17 Explain briefly what is meant by the Law of Supply.

1.18 List two(02) reasons to shift the supply curve to left.

1.19 List two(02) items included in the economic profile of sustainable development.

1.20 Explain briefly open market operations as a quantitative instrument of the monetary policy.

(02 marks each, Total 40 marks)

End of Section A

SECTION B

(Total 40 marks)

Question 02

- (a) **State** three(03) characteristics of non-economic goods. (03 marks)
- (b) **State** three(03) characteristics of a planned economic system. (03 marks)
- (c) **Explain** two(02) characteristics of a monopolistic market. (04 marks)
- (Total 10 marks)

Question 03

- (a) Consider the following Demand (Q_d) function and Supply (Q_s) function given in relation to a commodity:

$$\begin{aligned}Q_d &= 2,800 - 25p \\Q_s &= -200 + 100p\end{aligned}$$

You are required to:

- (i) **Calculate** the market equilibrium price and quantity for the commodity. (04 marks)
- (ii) **Calculate** the Producer's surplus. (02 marks)
- (b) **Explain** consequences of imposing a minimum price above the equilibrium price by the government for a commodity. (04 marks)
- (Total 10 marks)

Question 04

- (a) **Explain** what is meant by near money with an example. (02 marks)
- (b) **Explain** two(02) motives for demand for money. (04 marks)
- (c) You are provided the following data:

	Rs. million
Currency held by the public	15,600
Demand deposits held by the public at commercial banks	27,600
Time and savings deposits held by the public at commercial banks	14,800
Time and Savings deposits of residents' foreign currency banking units	8,600

Based on the above information,

You are required to:

Calculate the following:

- (i) Narrow Money Supply (M₁). (02 marks)
- (ii) Broad Money Supply (M₂). (02 marks)

(Total 10 marks)

Question 05

- (a) **Explain** what is meant by the Absolute Advantage Theory with an example. (03 marks)
- (b) **List** three(03) disadvantages of international trade. (03 marks)
- (c) **Explain** two(02) consequences of devaluation of the Sri Lankan Rupee against US Dollar. (04 marks)
- (Total 10 marks)
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End of Section B

SECTION C

(Total 20 marks)

Question 06

- (A) **Explain** the difference between producer's price and purchaser's price. (03 marks)
- (B) You are given the following hypothetical data relating to national accounts of an economy for a period of one year:

	Rs. million
Private Consumption Expenditure	5,000
Government's Consumption Expenditure	7,000
Gross Domestic Fixed Capital Formation	2,500
Changes in stock	300
Changes in values	245
Exports of Goods and Services	4,500
Imports of Goods and Services	13,000
Foreign Net Primary Income	500

You are required to:

Calculate the following:

- (a) Gross Domestic Expenditure (GDE) at market price. (06 marks)
- (b) Gross Domestic Product (GDP) at market price. (03 marks)
- (c) Gross National Income (GNI) at market price. (02 marks)
- (C) **State** three(03) importances of preparing national accounts. (03 marks)
- (D) **Explain** two(02) reasons for the failure of a government. (03 marks)
- (Total 20 marks)
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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.