

ASSOCIATION OF ACCOUNTING TECHNICIANS OF SRI LANKA

LEVEL I EXAMINATION - JANUARY 2026

(103) ECONOMICS

24-01-2026

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) **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.

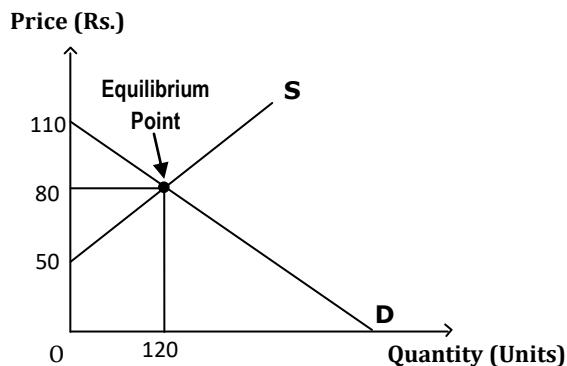
1.1 Which one of the following is correct with reference to the Micro Economics?

- (1) It studies about the economic growth.
- (2) It studies about exchange rate and foreign trade.
- (3) It studies about behaviour of consumers.
- (4) It studies about aggregate income and expenditure.

1.2 Which one of the following is the reward for entrepreneurship?

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

1.3 The following diagram shows demand and supply curves for a commodity:



The producer surplus is:

(1) Rs.1,800/- (2) Rs.3,600/- (3) Rs.4,800/- (4) Rs.3,000/-

1.4 The market structure in which there is only a single seller is known as:

(1) Oligopoly. (2) Monopoly.
(3) Perfect Competition. (4) Monopolistic Competition.

1.5 Which one of the following is an assumption of the Production Possibility Curve?

(1) Any number of goods can be produced.
(2) The amount of available resources is fixed during the period under consideration.
(3) Technology can be changed according to the requirement.
(4) Available resources should be changed.

1.6 Which one of the following is **not** a characteristic of a planned (command) economic system?

(1) Existence of a fair income distribution.
(2) Existence of state entrepreneurial system.
(3) Existence of consumer sovereignty.
(4) Absence of freedom of choice.

1.7 Which one of the following is **not** correct with respect to the indifference curve?

- (1) An indifference curve is a graph of different combinations of two goods.
- (2) An indifference curve slopes downward from left to right.
- (3) An indifference curve shows quantities of more than two goods.
- (4) Two indifference curves do not intersect with each other.

1.8 Which one of the following is a determinant of demand?

- (1) Prices of complementary goods. (2) Consumers' income.
- (3) Prices of substitutes goods. (4) All of the above.

1.9 Which one of the following is correct with reference to the effect of increase in consumer income on a demand curve?

- (1) Shift the demand curve to the right.
- (2) Shift the demand curve to the left.
- (3) Downward movement along the demand curve.
- (4) Upward movement along the demand curve.

1.10 According to the Annual Economic Review of the Central Bank of Sri Lanka for the year 2024, the Per Capita Income of Sri Lanka for the year 2024 was:

- (1) US \$ 3,801. (2) US \$ 4,516. (3) US \$ 3,851. (4) US \$ 3,999.

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 (*Scarcity / Opportunity Cost*) is the value of next best alternative choice forgone in the choice of a particular decision.

1.12 Marginal Product (MP) Curve intersects the Average Product (AP) Curve at the (*maximum / minimum*) point of the Average Product Curve.

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 At the optimum level of production, marginal revenue equals to marginal cost.

1.14 In monopolistic competition, firms earn normal profits in the short run only.

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 economic goods.

1.16 Explain briefly what is meant by “Demand Pull Inflation”.

1.17 State two(02) motives for the demand for money.

1.18 State the difference between total utility and marginal utility.

1.19 State two(02) elements in the profile of Human Development.

1.20 State two(02) recent economic trends in Sri Lankan economy.

(02 marks each, Total 40 marks)

End of Section A

SECTION B

(Total 40 marks)

Question 02

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

(ii) **State** two(02) instances where opportunity cost is zero. (02 marks)

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

$$Q_d = 200 - 10p$$

$$Q_s = 40 + 30p$$

You are required to:

Calculate the market equilibrium price and quantity of the commodity. (03 marks)

(c) **State** three(03) determinants of price elasticity of supply. (03 marks)

(Total 10 marks)

Question 03

(a) **Explain** the consequences of imposing a unit tax for a commodity by the government using a graph. (05 marks)

(b) **State** two(02) characteristics of the long run in a production process. (02 marks)

(c) **State** three(03) characteristics of an Oligopoly Market. (03 marks)
(Total 10 marks)

Question 04

(a) **State** three(03) functions of a commercial bank. (03 marks)

(b) **Explain** the relationship between price level and rate of interest. (03 marks)

(c) **Explain** two(02) qualitative monetary policy instruments used by the Central Bank of Sri Lanka. (04 marks)
(Total 10 marks)

Question 05

(a) **Australia** and **Brazil** produce both products **Sugar** and **Wheat**. The following table shows the kilograms of **Sugar** and **Wheat** which can be produced by one unit of labour of both countries:

Product Country	Sugar (in kg)	Wheat (in kg)
Australia	12	6
Brazil	3	6

You are required to:

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

(b) **Explain** the difference between “Flexible Exchange Rate” and “Fixed Exchange Rate”. (03 marks)

(c) **Explain** two(02) steps that can be used to control the depreciation of the Sri Lankan Rupee against US Dollar (\$). (03 marks)
(Total 10 marks)

SECTION C

(Total 20 marks)

Question 06

(A) **State** three(03) Macro-Economic Objectives. (03 marks)

(B) **State** three(03) different approaches of the National Income Accounting. (03 marks)

(C) 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	6,000
Government's Consumption Expenditure	5,500
Gross Domestic Fixed Capital Formation	2,500
Changes in stock	500
Changes in values	200
Exports of Goods and Services	6,500
Imports of Goods and Services	15,000
Net Factor Income from Abroad (Foreign Net Primary Income)	1,500

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. (02 marks)

(c) Net National Product (NNP) at market price. (02 marks)

(D) **Explain** what is meant by "Basic Price" in the National Income Accounting. (02 marks)

(E) **State** the difference between a Direct Tax and an Indirect Tax. (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.