SRI LANKA

ASSOCIATION OF ACCOUNTING TECHNICIANS OF SRI LANKA

LEVEL 01 EXAMINATION - JULY 2026

(1603) ECONOMICS

01-08-2026
Afternoon
[02.00 – 5.00]

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

- **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 statements is correct with reference to the economics?

(1) It is mainly concerned with how to produce goods and services for the economy.
(2) It is mainly concerned with how to satisfy needs and wants with limited resources.
(3) It is mainly concerned with how to increase profit in the turbulent environment.
(4) It is mainly concerned with how to run a business.

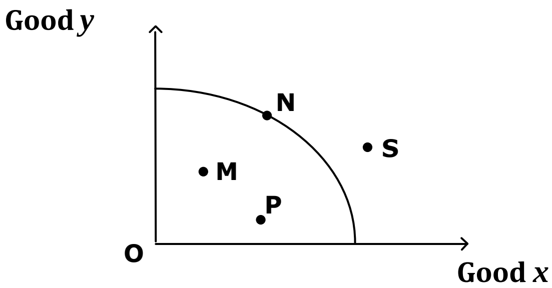
1.2 Which one of the following is the reward for the land?

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

1.3 According to the Annual Economic Review of the Central Bank of Sri Lanka for the year 2025, the Per Capita Income of Sri Lanka for the year 2025 was:

(1) US $ 5,003. (2) US $ 4,516. (3) US $ 3,818. (4) US $ 3,464.

1.4 The diagram below shows the Production Possibility Curve (PPC) of goods ***x*** and ***y*** of an economy:



Which one of the following points shows the full employment of the economy?

(1) **M.** (2) **N.** (3) **P.** (4) **S.**

1.5 The additional satisfaction of a person received by consuming an extra unit of good is:

(1) Total utility. (2) Marginal utility.

(3) Average utility. (4) Ordinal utility.

1.6 Which one of the following is **not** a reason for shifting a supply curve to the right?

(1) Advancement in technology.

(2) Increase in the number of suppliers in the market.

(3) Increase in the price of factor inputs used in the production.

(4) Removal of tax imposed on producers by the government.

1.7 If the coefficient of cross price elasticity between two goods has a negative value, the two goods are called:

(1) Complementary goods. (2) Substitute goods.

(3) Normal goods. (4) Inferior goods.

1.8 Which one of the following is a characteristic of a monopolistic market?

(1) Free entry and exit.

(2) Acts as a price maker.

(3) Large number of buyers and sellers in the market.

(4) Production of homogeneous goods.

1.9 Which one of the following costs is included in economic profit but not in accounting profit?

(1) Wages paid to workers. (2) Rent paid for factory building.

(3) Cost of raw materials. (4) Economic deprecation.

1.10 The aggregate of currency held by the public, demand deposits held by the public at commercial banks and time and savings deposit held by public at commercial banks is knows as:

(1) Narrow Money Supply. (2) Broad Money Supply.

(3) Consolidated Broad Money Supply. (4) Base Money Supply.

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 the long run, firms in monopolistic competition earn ……………… *[normal (zero) / above normal]* economic profit.

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*** *are* ***True*** *or* ***False****. Write the answer (True/False) in your answer booklet with the number assigned to the question.*

1.13 Setting a maximum maturity period for loans is an example of quantitative instrument of the monetary policy used by the Central Bank of Sri Lanka.

1.14 At the minimum point of the Average Total Cost (ATC) curve, the Marginal Cost (MC) is equal to the Average Total Cost 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 Briefly explain what is meant by "Opportunity Cost".

1.16 Briefly explain "Substitution Effect" in the law of demand.

1.17 State two(02) determinants of economic growth.

1.18 State two(02) differences between needs and wants.

1.19 State two(02) factors that shift the demand curve to the left.

1.20 Briefly explain what is meant by "Economic Development". (02 marks each, Total 40 marks)

End of Section A

SECTION B

(Total 40 marks)

Question 02

(a) **State** three(03) characteristics of economics goods. (03 marks)

(b) **State** the three(03) basic economic problems in an economy. (03 marks)

(c) **Explain** how a perfectly competitive firm maximizes profit in the short run, using a graph. (04 marks)

(Total 10 marks)

Question 03

(a) **Explain** what is meant by the "Law of Supply". (03 marks)

(b) Consider the following Demand function (Qd) and Supply function (Qs) in relation to a commodity:

$$Q_d = 180 - 3p$$

$$Q_s = 20 + 2p$$

You are required to:

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

(c) **Explain** the consequences of imposing a maximum price for a commodity by the government. (04 marks)

(Total 10 marks)

Question 04

(a) **List** three(03) functions of the Central Bank of Sri Lanka. (03 marks)

(b) **State** the three(03) motives for demand for money. (03 marks)

(c) **Explain** two(02) causes of inflation. (04 marks)

(Total 10 marks)

Question 05

(a) **State** three(03) advantages of international trade. (03 marks)

(b) **List** three(03) types of transactions recorded in the Balance of Payment. (03 marks)

(c) There has been an ongoing conflict/war in the Middle East since February 2026, and it has affected the global economy.

Explain two(02) ways in which the conflict/war in Middle East affects the Sri Lankan economy. (04 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
Private Consumption Expenditure	52,000
Government's Consumption Expenditure	12,500
Gross Domestic Fixed Capital Formation	11,000
Changes in Stock and Values	7,500
Exports of Goods and Services	4,400
Imports of Goods and Services	3,800
Foreign Net Primary Income	6,425

You are required to:

Calculate the following using the expenditure approach:

(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)

(B) **List** the four(04) phases in the business cycle. (02 marks)

(C) **State** three(03) limitations of the national income accounts. (03 marks)

(D) **Explain** two(02) impacts of the fiscal policy of the country on businesses. (03 marks)

(E) **State** two(02) roles of the government in a market economy. (02 marks)

(Total 20 marks)

End of Section C

Action Verbs Check List

Level	Action Verb	Definition	Detailed Instructions for Students
REMEMBER Recalling facts, terms, basic concepts, or answers without necessarily understanding what they mean.	**Identify**	Recognition of someone or something.	Find and name key parts of the topic.
	Define	Meaning of a word or concept.	Provide a clear meaning of a term or concept.
	Recognise	Awareness of something seen before.	Spot and acknowledge something from previous learning.
	State	Clear and concise expression of information.	Express key facts or concepts in a straightforward way.
	List	A series of names, numbers, or items.	Write down key points in an organized manner.
	Record	Entry of details into a system (not accounting).	Enter relevant details clearly and accurately.
UNDERSTAND Comprehending the meaning of informational materials and being able to interpret or explain it.	**Construct**	Formation of something by combining elements.	Bring together different parts into a meaningful whole.
	Differentiate	Recognition of differences between two or more things.	Highlight distinctions between concepts or items.
	Discuss	Consideration of different ideas and opinions about a topic.	Explore various perspectives and provide insights.
	Explain	Clarification of something in greater detail.	Provide a logical and detailed description.
	Illustrate	Use of examples, charts, or visuals to clarify a point.	Support explanations with appropriate examples or visuals.
	Interpret	Explanation of the meaning of information or actions.	Explain what something means in your own words.
	Describe	A detailed account of something.	Provide relevant details in a structured manner.
	Summarise	A brief statement of the main points.	Present key information concisely.
APPLY Using learned material in new and concrete situations. It requires the practical application of knowledge and skills.	**Apply**	Use of knowledge, skills, or rules in a situation.	Utilise relevant knowledge or techniques to achieve an outcome.
	Calculate	Determination of a value through mathematical or logical methods.	Use numerical or logical processes to reach a solution.
	Determine	Establishment of something through research or calculation.	Find out or conclude something after calculation or research.
	Demonstrate	Display of a process or method.	Show a clear example through structured steps.
	Prepare	Organisation of materials or information for use.	Arrange necessary details before engaging in a task.
	Use	Application of a concept, tool, or method for a purpose.	Implement relevant knowledge or resources appropriately.
	Present	Sharing of information effectively.	Deliver key insights clearly and professionally.
ANALYSE 1Breaking down information into its components to understand its structure and relationships.	**Analyse**	Detailed examination of something to understand its components.	Break down information into key parts for better understanding.
	Compare	Examination of similarities and/or differences.	Point out the key commonalities and distinctions.
	Distinguish	Recognition of unique characteristics.	Identify what makes things different from each other.
	Examine	Inspection of something to determine its nature.	Look at something closely to understand it better.
	Outline	Summary of the main points.	Provide an organised overview of key aspects.
	Conduct	Organisation of elements for an experiment, survey, or study.	Follow structured steps to carry out a task systematically.
	Report	Structured presentation of findings.	Present analysed information in a clear and logical format.
EVALUATE Making judgments about the value or quality of ideas or materials based on criteria or standards.	**Advise**	Offering of suggestions or recommendations.	Provide informed guidance based on analysis.
	Evaluate	Critical assessment of value, effectiveness, or impact.	Judge the quality or relevance of something based on criteria.
	Formulate	Development of a structured approach or plan.	Create a well-defined method or strategy.
	Recommend	Suggestion of a suitable course of action.	Propose an approach backed by logical reasoning.
CREATE Combining elements in novel ways to form a coherent or functional whole; the ability to generate new ideas, products, or ways of understanding.	**Create**	Generation of something new.	Develop something original and purposeful.
	Assess	Estimation or evaluation of quality, ability, or nature.	Provide a reasoned judgment based on available information.
	Develop	Expansion or refinement of an idea, product, or concept.	Strengthen and improve an idea over time.
	Propose	Suggestion of a plan or concept for consideration.	Present an idea or structured recommendation.
	Synthesis	Combination of different elements to form a coherent whole.	Integrate multiple ideas or insights into a meaningful conclusion.
	Design	Creation of a structured plan for something	Formulate a detailed structure for a product or process.
	Compile	Assembly of information from various sources.	Organise collected data into a comprehensive format.