



**ASSOCIATION OF ACCOUNTING TECHNICIANS
OF SRI LANKA**

CURRICULUM 2025

PILOT PAPER

Level 01

1603 - ECONOMICS (ECN)

A publication of the Education and Training Division

Association of Accounting Technicians of Sri Lanka

1603 - Economics [ECN]

Instructions to Candidates (Please Read Carefully)

Time Allowed:

Writing: 03 hours

Structure of Question Paper:

- This paper consists of three Sections: Section A, Section B and Section C.
- All the questions of Section A, Section B and Section C are compulsory.

Marks:

- Allocation of marks for each section:

Section	Marks
Section A	40
Section B	40
Section C	20
Total	100

- Marks for each question are shown with the question.
- The pass mark for this paper is 50.

Answers:

- All answers should be written in the booklet provided, answers written on the question paper will not be considered for marking.
- Begin your answer of each question on a new page.
- All workings should be clearly shown.
- Do not write on the Margins.

Answer Booklets:

- Instructions are shown on the front cover of each answer booklet.

Calculators:

- Candidates may use any calculator except those with the facility for symbolic algebra and differentiation. No programmable calculators are allowed.

Attached:

- Action verb checklist – Each question will begin with an action verb (excluding OTQ's). Students should answer the questions based on the definition of the verb given in the checklist.

Objective Test Question (OTQs)

SECTION A

Twenty (20) Compulsory Questions

(Total 40 marks)

Question 01

Select the most correct answer for question numbers **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 Limited availability of resources to meet human needs and wants is known as:

(1) Opportunity cost.	(2) Scarcity.
(3) Economic cost.	(4) Choice.

1.2 Which one of the following is a reason for the production possibility curve to shift rightward in an economy?

(1) A decrease in the amount of resources.
(2) Migration of skilled labour.
(3) Advancement in technology.
(4) A decrease in working hours due to an infectious disease.

1.3 Which one of the following is **not** included in the profile of sustainable development?

(1) Social mobility.	(2) Justice.
(3) Health conditions.	(4) Corporation.

1.4 You are given the following demand function (Q_d) and supply function (Q_s) for a commodity:

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

The equilibrium price of the commodity is:

(1) Rs.24/-.	(2) Rs.30/-.	(3) Rs.25/-.	(4) Rs.50/-.
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1.5 Select from the following the sentence which describes “Consumer Surplus”:

- (1) The difference between the price that producers are willing to charge and the price that they actually sell.
- (2) The difference between the total amount that consumers are willing to pay for commodities and the total amount that they actually paid.
- (3) It occurs when the quantity demanded exceeds the quantity supplied.
- (4) It occurs when the quantity supplied exceeds the quantity demanded.

1.6 The satisfaction of a person from consuming a good is called:

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

1.7 According to the Annual Economic Review of the Central Bank of Sri Lanka for the year 2024. Per Capita Income in Sri Lanka for the year 2024 was:

(1) US \$ 4,000.	(2) US \$ 4,516.
(3) US \$ 3,685.	(4) US \$ 3,379.

1.8 Which one of the following is a close example of a perfectly competitive market in Sri Lanka?

(1) Paddy market.	(2) Rice market.
(3) Electricity market.	(4) Pharmaceutical market.

1.9 Which one of the following is **not** a characteristic of a perfectly competitive market?

- (1) Firms have no control over price.
- (2) Firms hold the sole legal right to supply to the market.
- (3) The products that firms sell are homogeneous.
- (4) There is free entry to the market.

1.10 If the coefficient of cross price elasticity between two goods has a positive, the two goods are called as:

- (1) Inferior goods.
- (2) Complementary goods.
- (3) Substitutes goods.
- (4) Normal goods.

Select the correct word/words from those given within brackets to fill in the blanks of question No. **1.11** to **1.12**. Write the selected word/s in your answer booklet with the number assigned to the question:

1.11 The additional cost of producing one more unit of an output is referred to as
(average / marginal) cost.

1.12 The profit is the reward for
(capital / entrepreneurship).

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

1.13 The Phillips Curve explains a positive relationship between inflation and unemployment.

1.14 When a consumer's income increases, the demand for money also increases.

Write the answers for questions **1.15** to **1.20** in your answer booklet with the number assigned to each question.

1.15 List two (02) stages of Returns to Scale.

1.16 State two (02) protectionism methods of the international trade.

1.17 Explain briefly what is meant by Flexible Exchange Rate.

1.18 List two (02) approaches to the national income accounting.

1.19 State two (02) characteristics of a monopoly.

1.20 State two (02) characteristics of good money.

(02 marks each, 40 marks)

End of Section A

Four (04) Compulsory Questions

SECTION B

Total 40 marks

Question 02

(a) **Identify** two (02) differences between “economic resources” and “non-economic resources”. (02 marks)

(b) **State** three (03) assumptions of the Production Possibility Curve (PPC). (03 marks)

(c) **Explain** how a market economy answer the fundamental economic problems. (05 marks)

(Total 10 marks)

Question 03

(a) **Identify** three (03) factors that shift the supply curve left. (03 marks)

(b) **Explain** how the market forces determine the equilibrium price of a commodity with the help of a graph. (04 marks)

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

(Total 10 marks)

Question 04

(a) **Explain** the impacts of imposition of minimum legal price for a commodity by the government. (04 marks)

(b) **Explain** how a monopolist maximizes profit using a graph. (04 marks)

(c) "The Human Development Index is considered as a more comprehensive measure of development." **Explain** the above statement. (02 marks)

(Total 10 marks)

Question 05

(a) **Explain** the role of financial intermediaries. (04 marks)

(b) **Explain** two (02) functions of money. (03 marks)

(c) **Explain** the relationship between liquidity and profitability in commercial banks. (03 marks)

(Total 10 marks)

End of Section B

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	4,000
Government's Consumption Expenditure	6,000
Gross Domestic Fixed Capital Formation	2,500
Changes in stock	400
Changes in values	320
Exports of Goods and Services	5,200
Imports of Goods and Services	14,500
Foreign Net Primary Income	700

You are required to:

Calculate the following:

(a) Gross Domestic Expenditure (GDE) at market price. (03 marks)

(b) Gross Domestic Product (GDP) at market price. (02 marks)

(c) Gross National Income (GNI) at market price. (02 marks)

(B) Between 2020 and 2023, the Sri Lankan Rupee depreciated against both the US Dollar and the Euro.

State four (04) reasons for the decline in the exchange rate of the Sri Lankan rupee during the above period. (04 marks)

(C) The Sri Lankan economy experienced a depression, particularly after 2019.

Explain two (02) reasons behind this economic downturn. (03 marks)

(D) **Explain** two (02) ways how an economy utilizes fiscal policy to achieve economic growth?

(04 marks)

(E) **List** two (02) shortcomings in the implementation of fiscal policy by Sri Lankan government during second millennium. (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.

Level	Action Verb	Definition	Detailed Instructions for Students
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.



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CURRICULUM 2025

SUGGESTED ANSWERS

Level 01

1603 - ECONOMICS (ECN)

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Objective Test Questions (OTQS)

Twenty (20) compulsory questions

Section A

(Total 40 marks)

Answers to Question No 1

1.1	(2)	1.6	(3)	1.11	marginal
1.2	(3)	1.7	(2)	1.12	entrepreneurship
1.3	(2)	1.8	(1)	1.13	False
1.4	(1)	1.9	(2)	1.14	True
1.5	(2)	1.10	(3)		(02 mark each, 28 marks)

1.15 - Increasing returns to scale.
- Decreasing returns to scale.
- Constant returns to scale. **(01 mark each, 02 marks)**

1.16 - Tariffs.
- Quotas.
- Subsidies.
- Voluntary limits on exports.
- Foreign exchange controls.
- Setting limits for standard in administration and technology.
- Introduction of economic embargoes. **(01 mark each, 02 marks)**

1.17 A flexible exchange rate is a system that allows the exchange rate to be determined by market forces that is supply and demand forces. **(02 marks)**

1.18 - Income approach.
- Production approach.
- Expenditure approach. **(01 mark each, 02 marks)**

1.19 - Only one firm in the market.
- Price maker.
- Demand curve is downward sloping.
- No close substitution for the product / Unique product.
- Have barriers to entry.

(01 mark each, 02 marks)

1.20 - Acceptability.
- Convenience to identify.
- Portability.
- Divisibility.
- Uniformity.

(01 mark each, 02 marks)

(Total 40 marks)

End of Section A

Four (04) Compulsory Questions

(Total 40 marks)

SECTION B

Answers to Question 2

Unit 1 – Economic Concepts and Systems in the Business Environment.

Learning outcomes - Identify and explain how societies allocate scarce resources to fulfill unlimited wants and needs. (including scarcity; choice: opportunity cost; production possibility frontier, efficiency, and equity).

- Identify economic resources, and non-economic resources used to produce goods and services.
- Explain solving basic economic problems addressing what to produce, how to produce, and for whom to produce in different economic systems.

(a)

		Economic	Non-Economic
1.	Value	have monetary value.	No monetary value.
2.	Use	Used to produce goods and services.	Not used directly in production.
3.	Availability	Limited and need to be allocated.	Freely available.
4.	Scarcity	Scarce / limited supply.	Not scarce / abundant.

(01 mark each, 02 marks)

(b) - Only two goods can be produced. (Eg.- Food and Clothing).

- Amount of available resources is fixed during the period under consideration.
- Technology is constant.
- All the available resources are used in full and to the maximum efficiency.

(01 mark each, 03 marks)

(C) In the market economy, decisions are made by private individuals and firms based on supply and demand. Question of what produce is determined by consumers' preferences and produces goods that are profitable. The system solves question through the relative price of goods and services and also the profitability.

In a market economic system the production technique in solving the question how to produce is determined considering the expected profitability which is based on the relative factor price that is determined through the demand and supply conditions of the given factor in the factor market. Here the technique with the least cost that ensures the maximum profitability is chosen in solving the said question.

For whom to produce is decided by consumer's ability and willingness to pay meaning goods go to those who have purchasing power. To generate profit, entrepreneurs should produce goods and services on behalf of those that can afford. (05 marks)

(Total 10 marks)

Answers to Question 3

Unit 2 – Demand, Supply, Equilibrium and Government Intervention Strategies.

Learning outcomes - Explain the determinants of demand and supply.

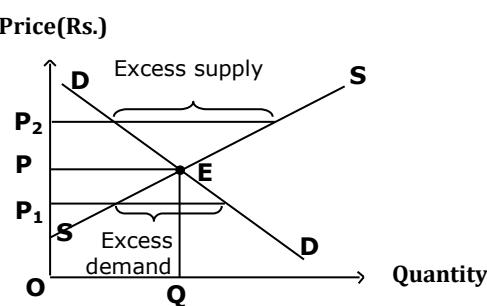
- Describe market balance (market equilibrium) and its business implications.

(a)

- Increase in the price of related goods.
- Increase in the price of factor inputs used in the production.
- Availability of outdated, obsolete technology.
- Decline in the number of suppliers in the market.
- Imposition or increasing the tax imposed on producers by the government.
- Removal of subsidies to the producers by the government.
- Expectations of producers that the price of the good will increase in the future.

(01 mark each, 03 marks)

(b)



Demand and supply curves show how the consumers and suppliers act on different prices. At P_2 price there is excess supply. Then price starts to come down. At P_1 there is excess demand, tend price to go up. Then demand and supply curves intersect at point E. At this point Demand = Supply. Then P is equilibrium price. (04 marks)

(c) The law of supply explains the positive relationship between the price of a good and the quantity supplied of that good over a given period of time when all the factors that determine the supply except the price of the own good remain constant. **(03 marks)**

(Total 10 marks)

Answers to Question 4

Unit 2 – Demand, Supply, Equilibrium, and Government Intervention Strategies.

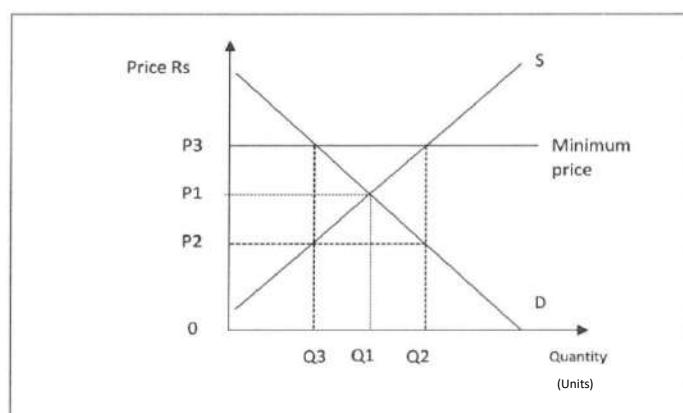
Unit 3 – Production Processes and Diverse Market Structures.

Unit 7 – Economic Growth, Development, and Emerging Trends.

Learning outcomes

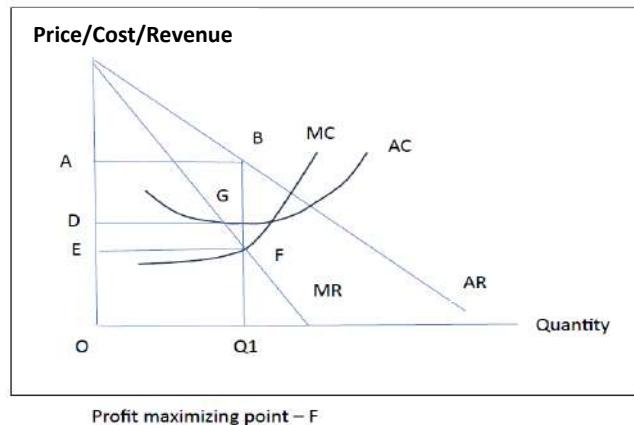
- Explain governmental market intervention strategies.
- Explain profit maximization in perfect competition and monopoly (including optimum output and price).
- Identify key contemporary macroeconomic indicators and explain their relevance to the business.

(a) **Imposition of Minimum Legal Price (Price Floor)** Legally declaring the minimum price at which an item can be sold is referred to as the imposition of minimum legal price. Setting a legal price above the equilibrium price is referred to as the imposition of minimum legal price and the minimum price is imposed when the government is concerned about the wellbeing of producer and also the owners of factors of production. When a minimum legal price is imposed it is illegal to purchase the given item or the given factor input at a price lower than the legally determined price. When a minimum legal price is introduced, an excessive supply (surplus) is created in the market. This in turn creates disequilibrium in the market. When there is an excessive supply in the market, it is difficult to maintain the minimum legal price imposed by the government. This will create inefficiencies in the distribution of scarce resources in the economy. Here it is not possible for the price mechanism to function freely to adjust the market price in order to remove the surplus that exists. Therefore necessary steps have to be taken to remove the surplus that exists in the market if the minimum legal price is to be maintained successfully.



(04 marks)

(b)



In a monopoly, a single firm controls the entire market for a product with no close substitution. To maximize profit, the monopolist produces at the output level where marginal revenue equals marginal cost ($MR = MC$).

The point 'F' represents the equilibrium point where monopoly firms earn maximum profit. At this point MC and MR are equal and beyond the point, MC rises and becomes more than MR. Hence a firm can maximize its profit operating at this level of output. **(04 marks)**

(c) HDI includes life expectancy (health), education and income per capita (GNI). This goes beyond just economic indicators like GDP, offering a more holistic view of human well-being. It is accepted for cross-country comparisons. By combining social and economic indicators HDI offers a complete view of people's wellbeing and living standards. It acknowledges that true development involves more than just financial wealth. **(02 marks)**

(Total 10 marks)

Answers to Question 5

Unit 5 – The Financial System, Money, and Price Level Dynamics.

Learning outcomes

- Explain money's roles (role of money), its demand, and supply.
- Explain how financial intermediaries aid business activities.
- Explain the correlation between commercial banks' liquidity and profitability.

(a) Financial intermediaries carryout the vital financial intermediation function of borrowing from surplus units and lending to deficit units. Financial intermediation supports businesses by supplying funds for investment, minimizing lending risk through risk sharing and enabling smooth payment process. They also offer financial advices, helping business to improve business decisions. Also they reduces risks by pooling funds and help businesses access finance efficiently. As they efficiently channel funds from savers to borrowers they reduce the cost of borrowing and improve access to finance. This promotes overall business growth and economic development. **(04 marks)**

(b) Medium of Exchange:

The use of money as a medium of exchange removes the difficulties of barter. With this function, some draw backs such as Double Coincidence of wants, problems in transportation, storage and difficulties in dividing into smaller units were removed. As a result money can be clearly distinguished from other assets. It enables sellers to exchange goods and services for money and then use the money to obtain whatever goods and services they desire.

Store of value:

The ability to save money for the future use without any risk can be explained as store of value function of money.

Money as a Unit of account (A Measure of Value):

If we exchange money for goods, it follows that goods will be priced in terms of money. Under a barter system, thousands of exchange rates would be needed, for example apples for wheat and meat for eggs. By pricing everything in terms of money, these problems can be overcome.

Standard of Deferred Payment:

Money acts as standard of deferred payment when it is used to make payments in the future, such as credit or loan agreements. **(1½ marks each, 03 marks)**

(C) In commercial banks, there's generally a negative relationship between liquidity and profitability. While maintaining adequate liquidity is crucial for avoiding financial distress, holding excessive liquid assets can reduce the bank's ability to generate income from investment and lending. This means that banks need to balance the need for liquidity with the need to maximize profits. **(03 marks)**

(Total 10 marks)

A Compulsory Question

SECTION C

Total 20 marks

Answer to Question 6

Unit 4 – National Accounting and the Government's Role in Economic Management.

Unit 6 – International Trade and the Foreign Exchange Market.

Learning outcomes

- Recognize macroeconomic goals and explain policies to achieve the macro-economic goals.
- Explain circular flow of income in different sectors.
- Explain tools of fiscal policy and its impact on business.
- Explain the foreign exchange market and exchange rate determination.

(A)

		Rs. million
	Private Consumption Expenditure	4,000
	Government's Consumption Expenditure	6,000
	Gross Domestic Fixed Capital Formation	2,500
	Changes in stock	400
	Changes in values	320
(a)	Gross Domestic Expenditure (GDE) at market price	13,220
	Add: Exports of Goods and Services	5,200
	Less: Imports of Goods and Services	(14,500)
(b)	Gross Domestic Product (GDP) at market price	3,920
	Foreign Net Primary Income	700
(c)	Gross National Income (GNI) at market price	4,620

(07 marks)

(B) (1) Artificially holding the exchange rate for a long time:

Exchange rate was fixed without considering demand and supply of exchange rate and suddenly it was floated. It resulted to increase in dollar rate.

(2) Gap between import expenditure and export income:

Sri Lanka import expenditure exceeds its export income. It creates deficit balance of trade account.

(3) Maintaining interest rates lower than inflation, compelling people to consume instead of saving.

(4) Heavy dependency on foreign loans for financing balance of payment gap.

(5) Foreign loans which were taken for projects have been used for settling trade account deficit and foreign reserves were used to pay interest on loans.

(6) With COVID-19, foreign remittances from workers have been reduced. It resulted a decrease in the country's forex supply.

(7) Increase in oil and gas prices in global economy due to shortages of raw material. It resulted to devalue the rupee against US \$.

(8) Due to COVID-19 pandemic, tourists arrival have been dropped drastically and as a result, the country loss the foreign income that could have been earned and as a result, the SL rupee has devalued against USD. **(01 mark each, 04 marks)**

(C) After 2019, the Sri Lankan economy entered a period of severe depression, marked by negative growth, rising inflation, and widespread shortages. Several key factors contributed to this economic downturn:

(1) Impact of COVID-19 Pandemic (2020 onwards):

The pandemic severely affected key sectors such as tourism, exports and remittances which are major source of foreign earning to Sri Lanka. Lockdowns and lower global demand led to a sharp slowdown in economic activities.

(2) Poor Economic Management and Policy Decisions:

Major tax cuts caused to reduce the government income printing excessive money to cover budget deficits caused inflation. Additionally ban on chemical fertilizers reduced crop yield, leading to food shortage and rising prices.

(3) Foreign Debt Crisis:

Sri Lanka faced a growing foreign debt burden with limited foreign reserves, leading to a sovereign debt crisis and difficulty in repaying loans.

(4) Political Instability:

Frequent government changes and political unrest reduced the trust of investors and caused interruption in stable economic planning, leading to greater economic uncertainty.

(5) Balance of Payments Crisis:

The country faced severe shortage of foreign currency because of the out flow on imports and debt repayments exceeded earnings from exports remittances. This shortage made it difficult to pay for imports and service foreign debt, worsening the economic situation.

(01½ marks each, 03 marks)

(D)

(1) Increasing Government Spending:

The government can encourage economic growth by funding projects in areas like infrastructure, education, healthcare, and public services. This raises overall demand in the economy and enhances productivity over the long term ($Y = C + I + G + X - M$).

(2) Cutting Taxes:

Lowering taxes on individuals and companies increases the money people have to spend and motivates businesses to invest more. This boosts both consumer spending and business investment, aiding growth on both the demand and supply sides.

(3) Providing Targeted Subsidies and Incentives:

The government can support important industries such as farming, renewable energy, and technology by giving them financial aid or grants, which helps these sectors grow and innovate.

(4) Stimulus Packages and Social Transfers:

By giving direct financial help to families through cash payments, unemployment benefits, or food assistance, the government can keep consumer spending steady during economic downturns and help reduce poverty.

(02 marks each, 04 marks)

(E)

- (1) Persistent Budget Deficits.
- (2) Over-Reliance on Indirect Taxes (import duties and VAT and low direct taxes).
- (3) Public Sector Expansion and Inefficiency.
- (4) Heavy Borrowing and Debt Accumulation.
- (5) Ad Hoc and Politically Motivated Policies.
- (6) Insufficient Investment in Productive Sectors.
- (7) Inadequate Fiscal Decentralization.
- (8) Weak Institutional Capacity and Governance.

(01 mark each, 02 marks)

(Total 20 marks)

End of Section C