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அரசிகா விடையும்	I
பொருளியல்	I
Economics	I

21 E I

පැය දෙකයි
இரண்டு மணித்தியாலும்
Two hours

Instructions:

- * Answer **all** the questions.
- * Write your **Index Number** in the space provided in the answer sheet.
- * Instructions are given on the back of the answer sheet. Follow them carefully.
- * In each of the questions from **1** to **50**, pick one of the alternatives from (1), (2), (3), (4), (5) which is **correct or most appropriate** and **mark your response on the answer sheet with a cross (x)** in accordance with the instructions given on the back of the answer sheet.

1. The central problem of economics is
 - (1) establishing a fair tax system.
 - (2) ensuring a minimum income for each citizen.
 - (3) allocating scarce productive resources to satisfy wants.
 - (4) enacting a set of laws that prevent resources from overuse.
 - (5) producing goods and services without being wasting resources.
2. Which of the following would cause an outward or rightward shift in the production possibilities curve?
 - (1) An increase in unemployment
 - (2) An increase in inflation
 - (3) An increase in capital stock
 - (4) A decrease in natural resources
 - (5) A decrease in the number of workers
3. The production possibility curves can be used to illustrate each of the following, with the exception of
 - (1) consumer demand.
 - (2) potential output.
 - (3) economic growth.
 - (4) opportunity cost.
 - (5) unemployment.
4. Which of the following characterizes the social market economy?
 - (1) Private ownership of all resources
 - (2) Public ownership of all resources
 - (3) Absence of a regulatory framework for the functioning of the price system
 - (4) Strong state role in the provision of welfare services
 - (5) Using centralized planning to resolve basic economic questions
5. Last year, 15 million tons of corn were sold for Rs. 30 000 per ton, and in this year 15 million tons of corn were sold for Rs. 25 000 per ton. Which of the following changes in demand and supply could have caused this outcome?

	Demand	Supply
(1)	Increase	Increase
(2)	Increase	Decrease
(3)	Decrease	Increase
(4)	Decrease	Decrease
(5)	Increase	No change

6. Consider that a consumer spends his/her entire income on the purchase of two goods X and Y. If the consumer's income and prices of good X and Y double, and other things remain unchanged, this consumer will

- double the purchase of goods X and Y.
- buy more of good X and less of good Y.
- buy less of good X and more of good Y.
- buy less of both goods X and Y.
- buy the same amounts of goods X and Y as before.

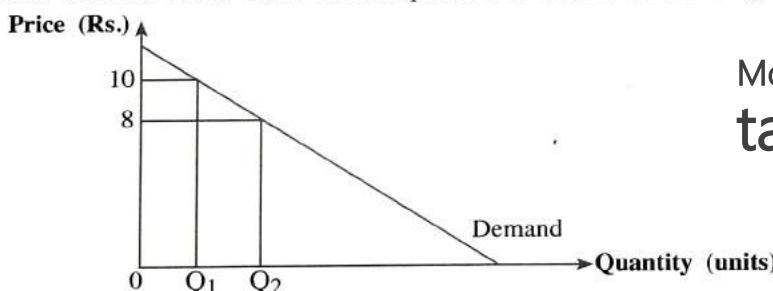
7. Which of the following helps in explaining why the demand curve for an inferior good is downward sloping?

- The income and substitution effects move the quantity demanded in the same direction.
- The income effect equals the substitution effect.
- The negative income effect dominates the substitution effect.
- The substitution effect dominates the negative income effect.
- The consumer increases the consumption of the good with an increase in income.

8. Assume that goods X and Y are complements. What will be the effect on the equilibrium price and quantity of good X, if an increase in the supply of good Y, while other things remain unchanged?

Equilibrium price of X	Equilibrium quantity of X
(1) Decrease	Decrease
(2) Decrease	Increase
(3) Increase	Decrease
(4) Increase	Increase
(5) Decrease	No change

9. The market demand curve for a certain product is drawn in the diagram below.



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Between the price of Rs. 10 and Rs. 8, the demand curve shown in the above diagram is

- perfectly elastic.
- relatively elastic.
- relatively inelastic.
- unitary elastic.
- perfectly inelastic.

10. Demand and Supply curves of a certain commodity sold in a competitive market are represented by the following equations. Prices are in Rupees.

$$\text{Demand : } Q_D = 40 - 2P$$

$$\text{Supply : } Q_S = -40 + 8P$$

The total surplus at the equilibrium is

- 36.
- 144.
- 180.
- 192.
- 360.

11. Assume that the cross price elasticity of demand between rice and bread is 3.0. An increase in the price of rice causes the demand for bread to rise by 75%. Which change in rice prices has brought this about?

Change in the price per kilogram of rice (Rs.)	
From	To
(1) 50	70
(2) 60	72
(3) 75	90
(4) 80	105
(5) 100	125

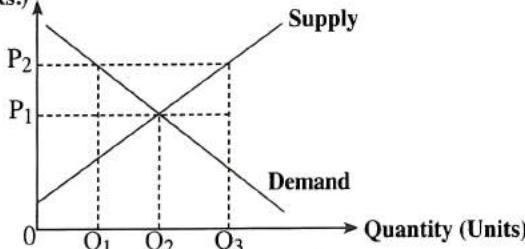
12. The market equilibrium price for wheat flour is Rs. 350 per kilogram and the market equilibrium quantity is 30 million kilograms. Which of the following policies would create an excess demand of wheat flour under this condition?

- Imposing a price ceiling of Rs. 330 per kilogram
- Imposing a price floor of Rs. 330 per kilogram
- Imposing a price ceiling of Rs. 400 per kilogram
- Imposing a price floor of Rs. 350 per kilogram
- Imposing a price ceiling of Rs. 375 per kilogram

13. Given a downward sloping demand curve and an upward sloping supply curve, a unit tax on a commodity will

- raise producer surplus.
- raise consumer surplus.
- cause a shifting of the supply curve to the right.
- raise the price by more than the tax.
- raise the price by less than the tax.

14. Price (Rs.)



The diagram above shows market demand and supply curves for corn. Suppose that the government wants to introduce an effective minimum price to support corn farmers. What should the government do to maintain an effective minimum price of OP_2 ?

- Buy quantity $Q_1 - Q_2$
- Buy quantity $0 - Q_2$
- Buy quantity $Q_1 - Q_3$
- Buy quantity $Q_2 - Q_3$
- Sell quantity $Q_1 - Q_2$

15. Assume that labour is the only variable input in a certain production activity. If this firm's short run marginal cost is increasing as output rises, which of the following must be true?

- Average product of labour is constant.
- Average product of labour is increasing.
- Marginal product of labour is greater than average product of labour.
- Marginal product of labour is decreasing.
- Total product of labour is decreasing.

16. Economic profit can be calculated as accounting profit minus which of the following?

- Fixed costs
- Implicit costs
- Depreciation
- Direct costs
- Total costs

17. Which of the following costs must continuously decrease as output increases in the short run?

- Total variable cost
- Total fixed cost
- Average variable cost
- Average fixed cost
- Average total cost

18. At a competitive firm's current level of output, the marginal cost is Rs. 100, the average variable cost is Rs. 60, the average fixed cost is Rs. 40 and the product price is Rs. 100 per unit. Which of the following statement is true for this firm?

- Economic profits are zero because price equals average total cost.
- Economic profits are negative because total revenue is less than total cost.
- Economic profits are positive because total revenue is greater than total cost.
- Economic profits are negative because price is greater than average variable cost.
- Economic profits are zero because marginal revenue equals marginal cost.

19. Which of the following describes the typical business cycle in the correct sequence?

- Expansion, growth, peak and recession
- Expansion, peak, recession and trough
- Peak, expansion, trough and recession
- Expansion, recovery, trough and peak
- Trough, peak, recession and expansion

20. Which of the following would be classified as consumption expenditure (C) when calculating Gross Domestic Product (GDP)?

- The purchase of wheat flour by a baker to make bread
- The purchase of a new computer software for the Ministry of Energy
- Donating used clothing to a charitable organization
- Purchasing 1 000 shares of a public corporation
- Spending Rs. 3 000 for having dinner at a restaurant

21. Suppose a wealthy person bought the holiday home in Nuwara Eliya which he/she used to rent every year. Due to this transaction

- GDP decreases by the amount of the purchase of holiday home because consumption (C) decreases.
- GDP increases by the amount of the purchase of holiday home because investment (I) increases.
- GDP is unaffected because it is a second-hand sale.
- GDP decreases because investment (I) decreases.
- Investment (I) increases, but consumption (C) decreases.

22. In a given year, if nominal GDP is Rs. 1 200 billion and real GDP is Rs. 1 000 billion, then the GDP deflator is

- 12%.
- 20%.
- 83.3.
- 120.
- 200.

23. Table below shows some macro economic data for a certain economy.

Item	Value (Rs. billion)
Gross Domestic Capital Formation	50
Exports of goods and non-factor services	10
Imports of goods and non-factor services	16
Government savings	-3

The value of private savings in this economy is

- Rs. 47 billion.
- Rs. 44 billion.
- Rs. 41 billion.
- Rs. 34 billion.
- Rs. 31 billion.

24. Suppose that in a certain economy when the aggregate income increases from Rs. 500 million to Rs. 1 000 million, aggregate consumption expenditure increases from Rs. 800 million to Rs. 1 200 million. The values of autonomous consumption and the marginal propensity to consume in this economy are

	Autonomous Consumption (Million Rupees)	Marginal Propensity to Consume
(1)	500	1.5
(2)	400	0.8
(3)	300	0.2
(4)	200	0.1
(5)	100	0.8

25. Assume that the marginal propensity to consume in a certain economy is 0.8 and equilibrium real Gross Domestic Product falls a short of full employment real Gross Domestic Product by Rs. 1 000 billion. What is the amount by which the government should increase its purchases to raise economy's real Gross Domestic Product to reach the full employment income level?

(1) Rs. 150 billion (2) Rs. 200 billion (3) Rs. 250 billion
 (4) Rs. 300 billion (5) Rs. 350 billion

26. Assume that in an economy the marginal propensity to consume out of disposable national income is 0.8 and the government taxes all income at a constant rate of 25%. If Gross National Income in this economy increases by Rs. 200 billion, consumption will initially increase by

(1) Rs. 50 billion. (2) Rs. 120 billion. (3) Rs. 150 billion.
 (4) Rs. 160 billion. (5) Rs. 750 billion.

27. Given a reserve ratio of 10% in an economy with fractional reserve banking system, what is the total amount of deposits resulting from a new deposit of Rs. 50 million according to the deposit multiplier?

(1) Rs. 500 million (2) Rs. 450 million (3) Rs. 400 million
 (4) Rs. 350 million (5) Rs. 50 million

28. Which of the following is **not** included in M2 definition of money supply?

(1) Currency held by the public (2) Demand deposits held by the public
 (3) Savings deposits held by the public (4) Time deposits held by the public
 (5) Credit cards held by the public

29. Based on the Equation of Exchange, if $Y = 500$, $M = 400$ and $V = 5$, then $P =$

(1) $\frac{1}{4}$ (2) 4 (3) 6.25 (4) 80 (5) 100

30. Which one of the following policies will close an inflationary gap?

(1) Lowers reserve requirements and increase budget deficit
 (2) Raise reserve requirements and lowers the discount rate
 (3) Increase the money supply, reduce government spending and decrease taxes
 (4) Decrease the money supply, increase taxes and reduce government spending
 (5) Decrease the money supply, decrease taxes and reduce government spending

31. Which of the following will lead to an increase in the money supply?

(1) A decrease in income tax rates
 (2) A decrease in government budget deficit
 (3) Open-market purchase of securities by the Central Bank
 (4) An increase in borrowing by the government issuing Treasury Bonds
 (5) An increase in the policy interest rates

32. Which of the following is true about a public good?

(1) One person's consumption means others get less.
 (2) Consumers who do not pay for it can be excluded from its benefits.
 (3) One more unit of a public good for some consumers means one less unit for other consumers.
 (4) One person's consumption does not exclude others from consuming it.
 (5) Everyone pays the same price for the good.

33. Which of the following is true when the production of a certain good results in positive externalities?

- The government must not produce that good.
- The private sector production remains less than socially desirable level.
- The market price of that good will be too high.
- The government must discourage the production of that good.
- Private firms will not be able to maximize profits by producing that good.

34. The crowding-out effect describes which of the following?

- When the government borrows money to finance budget deficit, it competes with private borrowers and bids up the interest rates causing private investment to decrease.
- When the government increases money supply rather than raise interest rates, inflation rate and private investment increase.
- When business firms compete for investment projects, the competition crowds out the weakest companies resulting in business failures.
- When the government repurchases bonds in the money market, money supply decreases and private investors have to compete for loans.
- When business sector borrows money they compete with the government and bid down the interest rates causing private investment to increase.

35. Market failure occurs when

- firms continue to incur heavy losses.
- firms cannot find markets for their products.
- demand falls and firms are compelled to cut their production.
- prices rise and consumers find it difficult to meet their needs.
- the price mechanism does not allocate resources efficiently.

36. The highest component of the of government recurrent expenditure in Sri Lanka in the year 2020 was

- wages and salaries.
- government transfers and subsidies.
- pensions.
- interest payments.
- fertilizer subsidy.

37. The main bilateral lenders of Sri Lanka at present are

- China, India and Saudi Arabia.
- China, India and Japan.
- China, India and World Bank.
- China, India and Germany.
- China, Japan and Bangladesh.

38. The table below shows labour hours required to produce a unit of bicycles and three-wheelers in Sri Lanka and India.

Country	Bicycles	Three-wheelers
India	15	60
Sri Lanka	20	120

Given this information, which statement is true?

- Sri Lanka has the absolute advantage in both products.
- India should specialize in bicycles and Sri Lanka should specialize in three-wheelers.
- India has the comparative advantage in three-wheelers.
- Sri Lanka has absolute advantage in three-wheelers.
- India has the comparative advantage in the production of both bicycles and three-wheelers.

39. Suppose that in the absence of any tariff, a domestic manufacturer using Rs. 15 000 worth of imported inputs manufactures and sells bicycles for Rs. 25 000 per unit. The government imposes a 20% tariff on bicycles, an imported bicycles would now sell for Rs. 30 000 per unit. What would be the effective rate of protection for domestically manufactured bicycles under this situation?

- 20%
- 25%
- 40%
- 45%
- 50%

40. At present **three** major industrial export items in Sri Lanka are

- (a) textiles and garments (b) food, beverages and tobacco (c) gems, diamonds and jewellery.
- (a) textiles and garments (b) rubber products (c) gems, diamonds and jewellery.
- (a) textiles and garments (b) rubber products (c) food, beverages and tobacco.
- (a) petroleum products (b) rubber products (c) food, beverages and tobacco.
- (a) petroleum products (b) rubber products (c) gems, diamonds and jewellery.

41. Suppose an economy's terms of trade index declined from the base year of 100 to 80. Which changes in the export price index and import price index would have caused this?

Change in Export Price Index	Change in Import Price Index
(1) + 20	0
(2) - 40	+ 20
(3) - 10	+ 20
(4) - 12	+ 10
(5) - 4	- 20

42. The Australian government has donated \$ 50 million worth of food and medicine to Sri Lankan government. How does this donation record in Sri Lanka's Balance of Payments Account according to double entry principle?

Credit	Debit
(1) Goods and Services : Goods	Secondary Income : Government
(2) Secondary Income: Government	Goods and Services : Goods
(3) Goods and Services : Services	Financial Account : Other Investments
(4) Goods and Services : Goods	Capital Account : Transfers
(5) Secondary Income : Government	Financial Account : Portfolio Investments

43. In a flexible exchange rate system, an increase in foreign demand for domestic goods will

- increase demand for the domestic currency, creating a depreciation of the domestic currency.
- reduce demand for the domestic currency, creating an appreciation of the domestic currency.
- increase demand for the domestic currency, creating an appreciation of the domestic currency.
- reduce demand for the domestic currency, creating a depreciation of the domestic currency.
- reduce supply of the domestic currency, creating a depreciation of the domestic currency.

44. What is the main role of the International Monetary Fund (IMF)?

- Ensuring a stable exchange rate regime and provide emergency financial assistance to countries facing crises in balance of payments
- Providing long term capital investment for assuring balance of payments equilibrium and balanced development of international trade
- Reducing poverty by lending money to member countries to improve the standard of living of their people
- Removing barriers for free flow of foreign direct investment
- Providing long-term finance to member countries for economic development and reconstruction.

45. Which of the following would reduce economic growth?

- A decline in investment
- An increase in number of immigrants from abroad
- A technological advance
- An increase in the labour force
- An increase in the savings rate

46. Development means

- sustainable increase in Gross National Income.
- removal of income disparity of rural population.
- economic growth with changes in economic structure.
- increase in country's real Gross Domestic Product.
- improvement in the average citizen's quality of life.

47. Which of the following policies is most likely to make a country's income distribution more equitable?

- Establishing a general sales tax on food and clothing
- Establishing a progressive income tax system
- Eliminating excise taxes on luxury goods
- Proportionately decreasing the tax rate for all income groups
- Reducing the subsidy on education and health

48. Which of the following combinations correctly indicates the National Poverty Headcount Index and the District with Highest Poverty Headcount Index of Sri Lanka in 2019 according to the Department of Census and Statistics data?

National Poverty Headcount Index (%)	District with Highest Poverty Headcount Index
(1) 3.2	Nuwara Eliya
(2) 4.1	Mullaithivu
(3) 14.3	Mullaithivu
(4) 14.3	Kilinochchi
(5) 16.0	Badulla

49. Which of the following is correct for the calculation of Labour Force Participation Rate of a country?

- $$\frac{\text{Employed Population} - \text{Unemployed Population}}{\text{Working-age Population}} \times 100$$
- $$\frac{\text{Employed Population} + \text{Unemployed Population}}{\text{Working-age Population}} \times 100$$
- $$\frac{\text{Working age Population} - \text{Employed Population}}{\text{Economically Active Population}} \times 100$$
- $$\frac{\text{Working-age Population}}{\text{Total Population}} \times 100$$
- $$\frac{\text{Economically Active Population}}{\text{Total Population}} \times 100$$

50. Despite the fact that Sri Lanka had engaged in sixteen programmes with the International Monetary Fund (IMF) in the past, respective governments had failed to implement most of the programmes successfully mainly due to

- the lack of commitment in meeting agreed reforms attached to such programmes.
- the availability of adequate funds from international capital markets.
- the heavy reliance on currency swaps to overcome the shortage of foreign exchange.
- the smooth inflow of foreign direct investments making IMF assistance unnecessary.
- the adaptation of flexible exchange rate policy resulting substantial improvement in country's external reserves.

Department of Education, Sri Lanka

ଆରତୀକ ବିଦ୍ୟାର
ପୋର୍ଟଲିଯାର
Economics

21 E II

ஏத நூலை
முன்று மணித்தியாலம்
Three hours

අමතර කියවීම් කාලය	- මිනිත්තු 10 පි
මොළතික බාසිප්පු තෙරුම	- 10 නිමිත්ත්ස්කൾ
Additional Reading Time	- 10 minutes

Use additional reading time to go through the question paper, select the questions you will answer and decide which of them you will prioritise.

Instructions:

- * Answer five questions only, selecting minimum of two questions from Sub section 'A' and two questions from Sub section 'B'.
- * Graph papers will be provided.

Sub section 'A'

(Select minimum of two questions from this section.)

1. (i) "If resources were unlimited and freely available, there would be no subject called economics." Explain this statement. (04 marks)

(ii) Briefly describe using separate diagrams how each of the following events can be illustrated in production possibilities curves of a country.

- The quality of education increases.
- Real Gross Domestic Product has contracted by 8% causing increase in the rate of unemployment.
- Defence spending reduced allowing government to spend more on health services.
- Prolonged drought has resulted long periods of power cuts.
- Limiting the availability of foreign exchange to import essential raw materials for industrial production.

(iii) Name **five** disadvantages of a free market economic system. (05 marks)

(iv) Explain the role of technology and entrepreneurs in the utilization of economic resources of a country. (06 marks)

2. (i) What is held constant in drawing a supply curve? (03 marks)

(ii) Research studies indicate that the price elasticity of demand for cigarettes is about -0.75 . If a pack of cigarettes currently costs Rs. 1500 and the government wants to reduce smoking by 30%, how much should be the price of a pack of cigarettes? (05 marks)

(iii) List and briefly describe any **three** non-price rationing systems. (06 marks)

(iv) Explain why consumers demand less of a commodity as its price rises. (06 marks)

3. (i) Why do prices of agricultural products fluctuate more than the prices of industrial goods? (06 marks)

(ii) If a price floor benefits producers, why does a price floor reduce economic surplus? Explain your answer using a diagram. (06 marks)

(iii) Suppose the demand and supply curves for a product sold in a competitive market are represented by the following equations.
 Demand: $Q_D = 720 - 4P$ Supply: $Q_S = -120 + 2P$

(A) Find the equilibrium price and quantity of the product. (02 marks)

(B) Suppose now government has decided to grant a subsidy of Rs. 15 per unit for the producers of this product.

(a) What is the price paid by the buyer after the subsidy? (03 marks)

(b) What is the price received by the supplier after the subsidy? (03 marks)

4. (i) Explain the difference between decreasing returns to scale and diminishing returns to a variable factor. (04 marks)

(ii) "Jayantha currently works as a lawyer at a legal consultancy firm earning a monthly salary of Rs. 250 000 is considering to start his own legal consultancy firm where he expects to earn Rs. 300 000 per month. He would need an office and a clerk to run his own firm. He has found the office which rents for Rs. 50 000 a month. Further, he could hire a clerk for Rs. 40 000 a month." If these figures are accurate, would Jayantha's legal consultancy firm be able to earn an economic profit? Explain your answer. (04 marks)

(iii) State **four** main features of a perfectly competitive industry? (04 marks)

(iv) Assume a perfectly competitive paddy market. Firms in the market are producing paddy, but they are currently incurring economic losses.

(a) Compare the market price of paddy relevant to this situation with firms' average total cost (ATC), average variable cost (AVC) and marginal cost (MC). (03 marks)

(b) Draw **two** graphs, side by side, to reflect the current situation in the market and for the typical firm. (05 marks)

5. (i) Define Nominal Gross Domestic Product, Real Gross Domestic Product and Gross Domestic Product per capita. (03 marks)

(ii) Does the Gross Domestic Product an over-estimate or under estimate of all production activities in an economy? Explain your answer. (04 marks)

(iii) The table below illustrates the consumption function for a household.

Disposable Income (Rs.)	Consumption Expenditure (Rs.)
0	3 000
3 000	5 400
6 000	7 800
9 000	10 200
12 000	12 600
15 000	15 000
18 000	17 400

(a) Compute the household's Average Propensity to Consume (APC) at the disposable income levels of Rs. 9 000 and Rs. 18 000 and the Marginal Propensity to Consume (MPC) at that range of disposable income. (04 marks)

(b) Write the equations for the household's consumption and saving functions. (04 marks)

(c) From the information given, draw the household's consumption and saving functions using a graph paper. (05 marks)

[See page three]

Sub section 'B'*(Select minimum of two questions from this section.)*

6. (i) Distinguish between near money and money substitutes. (04 marks)

(ii) State **four** causes of high inflation in Sri Lanka at present. (04 marks)

(iii) Explain the relationship between the rate of interest and the demand for money. (05 marks)

(iv) Mention the different techniques available to the Central Bank for controlling the money supply. (07 marks)

7. (i) Classify the following goods as either public, merit or demerit goods.

(a) Radio transmissions	(b) Vaccinations
(c) Cigarettes	(d) Museums

(04 marks)

(ii) Compare the merits and demerits of direct and indirect taxes. (04 marks)

(iii) (a) What is meant by incidence of taxation? (02 marks)

(b) Distinguish between legal tax incidence and economic tax incidence. (04 marks)

(iv) How does a negative externality in consumption affect allocative efficiency of resources? Explain your answer using a diagram. (06 marks)

8. (i) State **three** factors determining comparative advantage of a country. (03 marks)

(ii) What are the main accounts and items in the Balance of Payments statement? (04 marks)

(iii) Explain the difference between regional trading agreement and a bilateral trading agreement drawing examples from Sri Lanka. (06 marks)

(iv) "The exports to Gross Domestic Product ratio which stood at 30% in the year 2000 almost halved to 14.8% by 2020." Explain the reasons for the dismal performance of the export sector of Sri Lanka in the recent decades. (07 marks)

9. (i) Distinguish between economic development and human development. (04 marks)

(ii) What is the difference between poverty line and poverty headcount index? (04 marks)

(iii) Explain reasons why a substantial part of the working-age population might be economically inactive. (04 marks)

(iv) (a) What is meant by social safety net? (02 marks)

(b) Examine what are the shortcomings of social safety net programmes currently implemented in Sri Lanka. (06 marks)

10. (i) What is meant by restructuring of public debt? (04 marks)

(ii) State the essential policy changes required for Sri Lanka to overcome the current economic crisis. (05 marks)

(iii) Describe the importance of Global Production Sharing Networks as a strategy for promoting export earnings in Sri Lanka. (05 marks)

(iv) Analyse the factors which have prevented Sri Lanka achieving a rapid economic growth since Independence? (06 marks)

* * *

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