



ASSOCIATION OF ACCOUNTING TECHNICIANS OF SRI LANKA

AA1 EXAMINATION - JANUARY 2019

(AA13) ECONOMICS FOR BUSINESS AND ACCOUNTING

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

- (1) **Time allowed:** Reading - 15 minutes
Writing - 03 hours.

02-02-2019
Afternoon
[1.45 – 5.00]

- (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 begins 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.

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

SECTION A

Objective Test Questions (OTQs)

Twenty (20) compulsory questions

(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** Select from the following, the statement which correctly describes “Scarcity” in Economics:

- (1) Scarcity is the value of the next best alternative choice foregone in the choice of a particular decision.
- (2) Scarcity is the alternative use of resources to produce goods and services.
- (3) Scarcity is the addition to the total utility made by an extra unit of a commodity consumed.
- (4) Scarcity is the limited availability of resources in relation to human needs and unlimited human wants.

- 1.2** If the cross elasticity of demand between goods x and y is positive, the goods are:

- (1) complementary goods.
- (2) substitute goods.
- (3) normal goods.
- (4) inferior goods.

1.3 You are given the following statements with respect to the characteristics of perfect competition:

- (a) There are very large number of firms.
- (b) It sells homogeneous products.
- (c) It earns only normal profits in the long run.

Of the above, the correct statements of characteristics of perfect competition are:

- (1) (a) and (c) only.
- (2) (a) and (b) only.
- (3) (b) and (c) only.
- (4) All of the above.

1.4 A firm maximizes its profit when:

- (1) Price is below the average variable cost.
- (2) Total cost is equal to the marginal cost.
- (3) Total cost is equal to the total revenue.
- (4) Marginal cost is equal to the marginal revenue.

1.5 Imposing a unit tax on a commodity that has a relatively inelastic demand will lead:

- (1) Consumer to bear the total tax burden.
- (2) Consumer to bear a large portion of the tax burden.
- (3) Consumer to bear a small portion of the tax burden.
- (4) Consumer to bear exactly half of the tax burden.

1.6 Which one of the following is a Macro Economic Objective of the government?

- (1) Aggregate consumption.
- (2) Exchange rate.
- (3) Equilibrium in balance of payment.
- (4) Unemployment.

1.7 Select from the following, a correct characteristic of the market (capitalist) economy:

- (1) There is no consumer sovereignty (freedom).
- (2) The economic activities are handled by the centralized planning committee.
- (3) Production and distribution are performed by the government.
- (4) Producers have the sovereignty (freedom).

1.8 At the minimum point of the average total cost curve:

- (1) Average total cost is equal to Marginal Cost.
- (2) Average fixed cost is equal to Marginal Cost.
- (3) Total cost is equal to Average Fixed Cost.
- (4) Total cost is equal to Marginal Revenue.

1.9 According to the Annual Report of the Central Bank of Sri Lanka for the year 2017, the per capita income in Sri Lanka for the year 2017 was:

- (1) US \$ 4,200 (2) US \$ 3,924 (3) US \$ 3,700 (4) US \$ 4,065

1.10 Positive balance in the trade account of the balance of payment indicates:

- (1) The value of exports of goods is greater than the value of imports of goods.
(2) The value of exports of goods is lower than the value of imports of goods.
(3) The value of exports of goods is same as the value of imports of goods.
(4) The export price index is lower than the import price index.

*State whether each of the following statements in question No.1.11 to 1.15 is **TRUE** or **FALSE**. Write the answer (True/False) in your answer booklet with the number assigned to the question.*

1.11 An indifference curve describes the relationship between total cost and marginal cost of a firm.

1.12 The income effect is a reason for the downward slope of the demand curve.

1.13 If the change in the quantity demanded of a commodity is equal to the change in the price of that commodity, the price elasticity of demand is greater than one.

1.14 Producers' surplus is the difference between the equilibrium price of the commodity and the price at which the producer is willing to sell.

1.15 Full employment of resources is an underlying assumption of the Production Possibility Curve (PPC).

Select the correct word/words from those given within brackets to fill in the blanks of question No. 1.16 to 1.20. Write the selected word/words in your answer booklet with the number assigned to the question.

1.16 In a (*mixed economy / planned economy*), the government influences prices through taxes and subsidies and affects the operation of the price mechanism directly and indirectly.

1.17 Differentiated products are produced by (*perfect competition / monopolistic competition*).

1.18 Non excludability and non-rivalry in consumption show the importance of the provision of (*public goods / merit goods*).

1.19 The exchange rate determined based on the demand and supply for foreign exchange is known as (*fixed / floating*) exchange rate.

1.20 The process of collecting funds from depositors and lending them to borrowers is known as (*Financial inclusion / Financial intermediation*). (02 marks each, Total 40 marks)

End of Section A

SECTION B

Four (04) compulsory questions

(Total 40 marks)

Question 02

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

$$Q_d = 200 - 2P$$

$$Q_s = -40 + 6P$$

- (i) **Calculate** the equilibrium price of the commodity. (02 marks)
 - (ii) **Calculate** the equilibrium quantity of the commodity. (02 marks)
 - (iii) **Explain** the impact of the above computed equilibrium price and quantity, if the consumers' taste for the above commodity has been moved from it when other things being constant. (03 marks)
- (b) **Identify** three(03) factors that determine the price elasticity of demand. (03 marks)
(Total 10 marks)

Question 03

- (a) **Explain** the difference between shutdown point and break-even point of a firm using a graph. (06 marks)
- (b) (i) **List** three(03) functions of a commercial bank. (03 marks)
- (ii) **State** two(02) examples for licensed commercial banks in Sri Lanka. (01 mark)
(Total 10 marks)

Question 04

- (a) **Explain** the effect of an increase in the demand for money on the equilibrium interest rate using a graph. (06 marks)
- (b) **Explain** the difference between Demand Pull Inflation and Cost Push Inflation. (04 marks)
(Total 10 marks)

Question 05

- (a) **Explain** how open market operations act as a quantitative control in managing the money supply. (04 marks)
- (b) **State** two(02) disadvantages of protectionism. (02 marks)
- (c) **Explain** two(02) main reasons for recent devaluation of the Sri Lankan Rupee against US dollar. (04 marks)
- (Total 10 marks)

End of Section B

SECTION C

A compulsory question

(Total 20 marks)

Question 06

- (A) (a) **State** two(02) disadvantages of public enterprises. (02 marks)
- (b) **State** four(04) main objectives of the government budget. (04 marks)
- (B) You are given the following hypothetical data relating to national accounts of an economy for a period of one year:

	Rs. Million
Compensation for employees	2,000
Net operating surplus	1,000
Mixed income	1,100
Net taxes on production and imports	750
Net foreign current transfers	550
Net foreign primary income	1,200
Net indirect taxes	150

Using the above information,

You are required to,

Calculate the following:

- (a) Gross Value Added (GVA) at basic price. (04 marks)
- (b) Gross Domestic Product (GDP) at market price. (02 marks)
- (c) Gross National Income (GNI). (02 marks)
- (d) Gross National Disposable Income (GNDI). (02 marks)
- (C) **Explain** the following two terms:
- (a) Economic Growth. (02 marks)
- (b) Economic Development. (02 marks)

(Total 20 marks)

End of Section C

ACTION VERB CHECK LIST

Knowledge Process	Verb List	Verb Definitions
Level 01 Comprehension Recall & explain important information	Define	Describe exactly the nature, scope, or meaning.
	Draw	Produce (a picture or diagram).
	Identify	Recognize, establish or select after consideration.
	List	Write the connected items one below the other.
	Relate	To establish logical or causal connections.
	State	Express something definitely or clearly.
	Calculate/Compute	Make a mathematical computation
	Discuss	Examine in detail by argument showing different aspects, for the purpose of arriving at a conclusion.
	Explain	Make a clear description in detail revealing relevant facts.
	Interpret	Present in an understandable terms.
	Recognize	To show validity or otherwise, using knowledge or contextual experience.
	Record	Enter relevant entries in detail.
Summarize	Give a brief statement of the main points (in facts or figures).	

Knowledge Process	Verb List	Verb Definitions
Level 02 Application Use knowledge in a setting other than the one in which it was learned / Solve closed-ended problems	Apply	Put to practical use.
	Assess	Determine the value, nature, ability, or quality.
	Demonstrate	Prove, especially with examples.
	Graph	Represent by means of a graph.
	Prepare	Make ready for a particular purpose.
	Prioritize	Arrange or do in order of importance.
	Reconcile	Make consistent with another.
	Solve	To find a solution through calculations and/or explanation.

Knowledge Process	Verb List	Verb Definitions
Level 03 Analysis Draw relations among ideas and compare and contrast / Solve open-ended problems.	Analyze	Examine in detail in order to determine the solution or outcome.
	Compare	Examine for the purpose of discovering similarities.
	Contrast	Examine in order to show unlikeness or differences.
	Differentiate	Constitute a difference that distinguishes something.
	Outline	Make a summary of significant features.