



ASSOCIATION OF ACCOUNTING TECHNICIANS OF SRI LANKA

AA1 EXAMINATION - JANUARY 2020

(AA13) ECONOMICS FOR BUSINESS AND ACCOUNTING

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

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

25-01-2020
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 Which one of the following is the reward for the capital?

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

1.2 Select from the following, the most correct reason for interference by the government in the market economy:

- (1) To maximize profitability. (2) To correct market failure.
(3) To secure employment. (4) To increase market demand.

1.3 If the cross elasticity of demand between goods X and Y is negative, the goods are:

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

- 1.4** Which one of the following is a reason for shifting of the demand curve of a commodity to the left?
- (1) Fall in price of that commodity. (2) Increase in consumers' income.
(3) Increase in price of that commodity. (4) Decrease in consumers' income.
- 1.5** Which one of the following is a disadvantage of international trade?
- (1) Increase in production. (2) Reducing trade fluctuations.
(3) Maximum utilization of resources. (4) Importing harmful goods.
- 1.6** An example for a licensed specialized bank is:
- (1) Commercial Bank. (2) Hatton National Bank.
(3) Bank of Ceylon. (4) National Savings Bank.
- 1.7** A main objective of the Central Bank of Sri Lanka is:
- (1) Advising individuals on investment matters.
(2) Providing assistance to importers.
(3) Maintaining financial stability.
(4) All of the above.
- 1.8** Amount of goods and services which could be purchased in a foreign market with a unit of the domestic currency is called:
- (1) Internal real value. (2) External real value.
(3) Internal official value. (4) External official value.
- 1.9** According to the Annual Report of the Central Bank of Sri Lanka for the year 2018, per capita income in Sri Lanka for the year 2018 was:
- (1) US \$ 3,924. (2) US \$ 4,102. (3) US \$ 3,800. (4) US \$ 4,200.
- 1.10** The ability of a country to produce at a lower opportunity cost than another country is:
- (1) Comparative advantage. (2) Terms of trade.
(3) Absolute advantage. (4) Balance of payments.

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 Imports is an example for an injection (addition) from circular flow of income.
- 1.12 Trade account is a sub account of current account in the balance of payments statement.
- 1.13 Employment is a macroeconomic variable.
- 1.14 When the total utility is maximized, marginal utility will be zero.
- 1.15 Marginal cost (MC) curve intersects the Average Cost (AC) curve at the minimum point of the AC curve.

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 If output increases in a smaller proportion than the increase in all inputs there is
(*increasing /decreasing*) returns to scale.
- 1.17 (*Broad / Narrow*) money supply refers to the aggregate of the currency held by public and demand deposits held by the public at commercial banks.
- 1.18 In monopolistic competition, firms earn only normal profits in the (*long-run / short-run*).
- 1.19 (*Marginal cost / Average cost*) is the additional cost incurred to produce an extra unit of output.
- 1.20 When an economy increases the number of machines and factories available to produce goods and services in the economy, it is known as (*Gross Domestic Product / Capital Accumulation*).
(02 marks each, Total 40 marks)

End of Section A

SECTION B

Four (04) compulsory questions

(Total 40 marks)

Question 02

- (a) (i) **Explain** what is meant by “scarcity”. (02 marks)
- (ii) **Explain** the difference between choice and opportunity cost. (03 marks)
- (b) **State** five(05) characteristics of planned (socialist) economic system. (05 marks)
(Total 10 marks)

Question 03

- (a) You are given the following demand (Qd) and supply (Qs) equations for a commodity:

$$Q_d = 1,500 - 6P$$

$$Q_s = -100 + 2P$$

- (i) **Calculate** the equilibrium price and quantity of the commodity. (03 marks)
- (ii) **Explain** the impact of the above equilibrium price and quantity, as a result of an increase in income of consumers. (02 marks)
- (b) **Explain** with the help of a graph, how profit is maximized in the short run by a perfect competitive firm. (05 marks)
- (Total 10 marks)

Question 04

- (a) **Explain** the difference between price ceilings (maximum price) and price floors (minimum Price). (04 marks)
- (b) **Explain** three(03) consequences for a country like Sri Lanka having a budget deficit in the government budget. (06 marks)
- (Total 10 marks)

Question 05

- (a) (i) **Explain** two(02) functions of money. (03 marks)
- (ii) **Explain** the relationship between the general price level and value of money. (03 marks)
- (b) (i) **Explain** what is meant by protectionism. (02 marks)
- (ii) **State** two(02) advantages of protectionism. (02 marks)
- (Total 10 marks)

End of Section B

SECTION C

A compulsory question

(Total 20 marks)

Question 06

- (A) (a) **List** three(03) qualitative controls of the monetary policy of the Central Bank of Sri Lanka. (03 marks)
- (b) **Explain** what is meant by financial intermediation. (03 marks)

- (B) You are given the following hypothetical data relating to national accounts of an economy for a period of one year:

	Rs. Million
Agriculture, Forestry and Fishing	10,000
Mining & quarrying, manufacturing, electricity & water and other industries	7,500
Construction	20,000
Wholesale and retail trade, transportation, storage, accommodation and food service activities	2,500
Information and communication services	23,000
Financial and insurance services	2,500
Real estate activities including ownership of dwelling	4,550
Professional, Scientific, Technical, Administration and Support service activities	3,575
Public administration, Defense, Education, Human health and Social work activities	15,000
Other services	5,600
Taxes on products	5,600
Subsidies on products	3,250

Using the above information,

You are required to,

Calculate the following:

- (a) Gross Value Added (GVA) at basic price. (06 marks)
- (b) Gross Domestic Product (GDP) at market price. (04 marks)
- (C) **Explain** the difference between Economic Development and Sustainable Development. (04 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.