



ASSOCIATION OF ACCOUNTING TECHNICIANS OF SRI LANKA

LEVEL I EXAMINATION - JULY 2020

(103) ECONOMICS

26-09-2020

Afternoon

[02.00 - 5.00]

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

- (1) **Time:** 03 hours. No. of Pages : 06
- (2) **All questions should be answered.** No. of Questions : 06
- (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

(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 Basic Economic problems exist because:

- (1) Consumption increases with increase of income.
- (2) Economic resources cannot be transferred.
- (3) Resources are not utilized fully to produce goods and services.
- (4) Resources are insufficient to fulfill all wants.

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

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

1.3 Which one of the following is an example for a capital expenditure incurred by the government?

- (1) Interest payments on loans. (2) Recurrent transfers.
- (3) Purchase of real assets. (4) Provision of subsidies.

1.4 Which one of the following is an assumption of Production Possibility Curve?

- (1) Technology is not constant. (2) Only two goods are produced.
(3) All the available resources are not fixed. (4) Resources are not utilized in full.

1.5 Which one of the following is **not** a characteristic of perfect competition?

- (1) Production of homogenous goods.
(2) Free entry and exit.
(3) Only the seller decides the price of good.
(4) Large number of buyers and sellers in the market.

1.6 You are given the following cost information of a firm for a month:

	Rs.
Direct Costs	180,000
Indirect Costs	45,000

The firm produced and sold 2,500 units during the month and selling price is Rs.100/- each.

Based on the above information, Economic Profit for the month would be:

- (1) Rs.70,000/-. (2) Rs.25,000/-. (3) Rs.205,000/-. (4) Rs.225,000/-.

1.7 When a country can produce a good or a service in greater quantity for the same cost or the same quantity at lower cost than other countries, it is known as:

- (1) Absolute advantage. (2) Terms of trade.
(3) Comparative advantage. (4) Protectionism.

1.8 Which one of the following is a qualitative instrument of monetary policy of the Central Bank of Sri Lanka?

- (1) Bank rate.
(2) Open market operations.
(3) Reserve rate.
(4) Setting a maximum maturity period for loans.

1.9 The aggregate of Narrow Money Supply, time and savings deposits held by public at commercial banks is known as:

- (1) Consolidated Broad Money Supply. (2) Broad Money Supply.
(3) Broad Money multiplier. (4) Very Broad Money Supply.

1.10 Which one of the following is **not** included in current account of the balance of payments account?

- (1) Foreign direct investment. (2) Export of goods and services.
(3) Imports of goods and services. (4) Primary income.

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 (*Average cost / Marginal cost*) refers to the cost per unit of output in the given period.

1.12 When the proportionate increase in output is (*higher / lower*) than the proportionate increase in inputs there will be increasing returns to scale.

*State whether each of the following statements from 1.13 to 1.15 is **True** or **False**. Write the answer (True/False) in your answer booklet with the number assigned to the question.*

1.13 At the market equilibrium, there is an excess demand.

1.14 The marginal utility is the additional satisfaction that a person derives by consuming an additional unit of a good over a given period of time.

1.15 There is a positive relationship between price and quantity demanded of a good as per the law of demand.

Write the answers for question No. 1.16 to 1.20 in your answer booklet with the number assigned to the question.

1.16 State the basic economic problems of an economy.

1.17 Explain briefly what is meant by the law of diminishing marginal returns.

1.18 State two(02) characteristics of monopoly.

1.19 State two(02) limitations of national income accounts.

1.20 State two(02) macro-economic objectives. (02 marks each, Total 40 marks)

End of Section A

SECTION B

(Total 40 marks)

Question 02

- (a) **Differentiate** economic goods from non-economic goods with an example for each. (03 marks)
- (b) **List** four(04) characteristics of the planned economy system. (04 marks)
- (c) **Explain** the concept of opportunity cost in Economics with an example. (03 marks)
- (Total 10 marks)

Question 03

- (a) The demand (Q_d) and supply (Q_s) equations for **product A** are as follows:

$$Q_d = 180 - 4p$$

$$Q_s = -20 + 6p$$

Using the above information,

- (i) **Calculate** the equilibrium price and quantity. (03 marks)
- (ii) **Calculate** the consumer's surplus. (02 marks)
- (b) **Identify** two(02) factors that determine the price elasticity of demand. (02 marks)
- (c) **Explain** two(02) ways by which the government intervene in the market economy. (03 marks)
- (Total 10 marks)

Question 04

- (a) (i) **State** two(02) characteristics of money. (02 marks)
- (ii) **List** two(02) reasons for the use of electronic money. (02 marks)
- (b) **State** two(02) functions of the Central Bank of Sri Lanka. (02 marks)
- (c) **Explain** two(02) motives for demand for money. (04 marks)
- (Total 10 marks)

Question 05

- (a) **Explain** how perfectly competitive firms maximize profit in the short run using a graph paper. (04 marks)
- (b) **Explain** three(03) consequences to the Sri Lankan economy due to COVID-19 Pandemic. (06 marks)
- (Total 10 marks)

End of Section B

SECTION C

(Total 20 marks)

Question 06

- (A) (a) **State** four(04) advantages of international trade. (04 marks)
- (b) **Explain** the difference between fixed exchange rate and flexible (floating) exchange rate. (03 marks)
- (B) **List** three(03) reasons for importance of preparing national income accounts. (03 marks)
- (C) 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	2,000
Government consumption expenditure	1,500
Gross domestic capital formation	1,200
Exports	1,800
Imports	1,250
Net factor income from abroad (Net foreign primary income)	- 800

You are required to:

Calculate the following using expenditure approach:

- (a) Gross Domestic Expenditure (GDE) at market price. (04 marks)
- (b) Gross Domestic Product (GDP) at market price. (03 marks)
- (c) Gross National Income (GNI) at market price. (03 marks)

(Total 20 marks)

End of Section C

ACTION VERBS CHECK LIST

Level of Competency	Description	Action Verbs	Verb Definitions
Knowledge (1)	Recall Facts and Basic Concepts.	Draw	Produce a picture or diagram.
		Relate	Establish logical or causal connections.
		State	Express details definitely or clearly.
		Identify	Recognize, establish or select after consideration.
		List	Write the connected items.

Level of Competency	Description	Action Verbs	Verb Definitions
Comprehension (2)	Explain & Elucidates Ideas and Information.	Recognize	Show validity or otherwise, using knowledge or contextual experience.
		Interpret	Translate into understandable or familiar terms.
		Describe	Write and communicate the key features.
		Explain	Make a clear description in detail using relevant facts.
		Define	Give the exact nature, scope or meaning.

Level of Competency	Description	Action Verbs	Verb Definitions
Application (3)	Use and Adapt Knowledge in New Situations.	Reconcile	Make consistent / compatible with another.
		Graph	Represent by graphs.
		Assess	Determine the value, nature, ability or quality.
		Solve	Find solutions through calculations and/or explanation.
		Prepare	Make or get ready for a particular purpose.
		Demonstrate	Prove or exhibit with examples.
		Calculate	Ascertain or reckon with mathematical computation.
		Apply	Put to practical use.

Level of Competency	Description	Action Verbs	Verb Definitions
Analysis (4)	Draw Connections Among Ideas and Solve Problems.	Communicate	Share or exchange information.
		Outline	Make a summary of significant features.
		Contrast	Examine to show differences.
		Compare	Examine to discover similarities.
		Discuss	Examine in detail by arguments.
		Differentiate	Constitute a difference that distinguishes something.
		Analyze	Examine in details to find the solution or outcome.