



ASSOCIATION OF ACCOUNTING TECHNICIANS OF SRI LANKA

LEVEL I EXAMINATION - JANUARY 2021

(103) ECONOMICS

13-03-2021

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) **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.**

(7) **100 Marks.**

SECTION A

Objective Test Questions (OTQs)

(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 a characteristic of an economic good?

- (1) There is no opportunity cost in production of an economic good.
- (2) Economic good is an outcome of a production process.
- (3) There is no scarcity in supply.
- (4) Economic good is treated as a gift from nature.

1.2 Select from the following, the most correct statement with reference to "Scarcity" in Economics:

- (1) It is only relevant to poor countries in the world.
 - (2) It explains about alternative uses of resources to produce goods and services.
 - (3) It is the limited availability of resources to meet human needs and wants.
 - (4) It arises when unutilized resources are used in economic activities.
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1.3 The value of next best alternative foregone in the choice of a particular decision is known as:

- (1) Economic cost.
- (2) Average cost.
- (3) Opportunity cost.
- (4) Marginal cost.

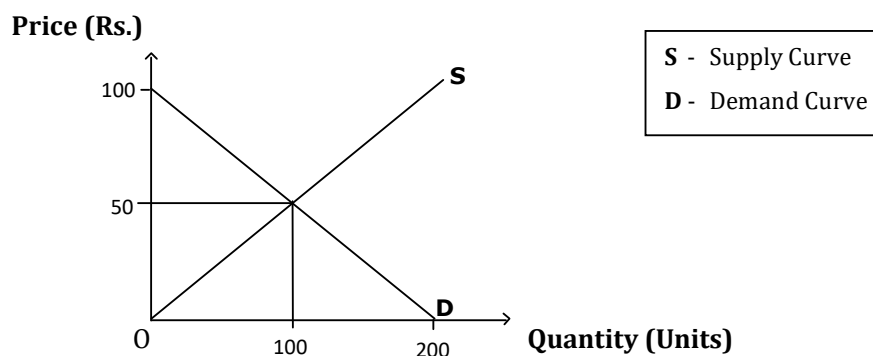
1.4 Which one of the following statements is correct?

- (1) The theory of Cardinal Utility assumes that the level of satisfaction gained by consuming a good cannot be measured.
- (2) The theory of Ordinal Utility assumes that the utility can be measured.
- (3) Total Utility is the marginal satisfaction received by consuming goods and services.
- (4) Marginal Utility is the additional satisfaction that a person derives by consuming an extra unit of a good over a given period of time.

1.5 Which one of the following is a determinant of price elasticity of demand?

- (1) Whether the relevant good is a necessity or luxury.
- (2) The number of substitutes available for the good.
- (3) The percentage of income spent on the good.
- (4) All of the above.

1.6 You have given the following demand and supply curves for **Commodity A**:



The maximum price at which the **Commodity A** is sold in the market is Rs.100/-. The consumer surplus is:

- (1) Rs.2,500/-.
- (2) Rs.5,000/-.
- (3) Rs.1,250/-.
- (4) Rs.1,000/-.

1.7 Which one of the following is an example for electronic money?

- (1) Savings Deposits.
- (2) Credit Cards.
- (3) Fixed Deposits.
- (4) Treasury Bills.

1.8 The law of demand explains:

- (1) The inverse relationship between price of a commodity and the quantity demanded of that commodity in a market.
- (2) The change in demand due to change in income.
- (3) The change in demand for raw material due to change in demand for a commodity.
- (4) The change in demand for a commodity as a result of change in price of another commodity.

1.9 Which one of the following is included in the financial account of the balance of payments statement?

- | | |
|---------------------------------|-----------------------|
| (1) Foreign Direct Investments. | (2) Exports of goods. |
| (3) Government grants. | (4) Imports of goods. |

1.10 According to the Annual Report of the Central Bank of Sri Lanka for the year 2019, Economic Growth in Sri Lanka for the year 2019 was:

- | | | | |
|---------|-----------|-----------|-----------|
| (1) 6%. | (2) 2.3%. | (3) 3.2%. | (4) 4.8%. |
|---------|-----------|-----------|-----------|

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 At the point where firm's marginal revenue equals to its (*Marginal cost / Average cost*), the profit of the firm will be maximized.

1.12 When the consumers' income increases, the demand curve shifts to (*left / right*).

*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 Setting a maximum maturity period for loans is a way of quantitative control instrument of monetary policy of the Central Bank of Sri Lanka.

1.14 Economic depreciation is an example for indirect cost.

1.15 If the cross price elasticity of demand between goods A and B is negative, the goods are considered as substitute goods.

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 two(02) factors that shift the supply curve to left.

1.17 Explain briefly, the term "change in quantity demanded".

1.18 State two(02) factors that cause increasing returns to scale.

1.19 Explain briefly, what is meant by Marginal Revenue (MR).

1.20 State two(02) ways by which the government intervene the market.

End of Section A (02 marks each, Total 40 marks)

SECTION B

(Total 40 marks)

Question 02

- (a) **State** the four(04) main economic resources (factors of production) of an economy. (02 marks)
- (b) **List** four(04) characteristics of the market economic system. (04 marks)
- (c) (i) **Explain** what is meant by “Choice” in Economics. (02 marks)
- (ii) **State** two(02) assumptions of the production possibility curve. (02 marks)
- (Total 10 marks)

Question 03

- (a) The demand equation (Qd) and supply equation (Qs) for **product X** are as follows:

$$Q_d = 3,600 - 7P$$

$$Q_s = -200 + P$$

Using the above information,

- Calculate** the equilibrium price and quantity. (04 marks)
- (b) **Explain** the difference between short run and long run in a production process. (04 marks)
- (c) **List** two(02) characteristics of a monopolistic competitive market. (02 marks)
- (Total 10 marks)

Question 04

- (a) **State** four(04) functions of a commercial bank. (04 marks)
- (b) **Explain** the relationship between profitability and liquidity in relation to commercial banks. (04 marks)
- (c) **State** two(02) causes of inflation. (02 marks)
- (Total 10 marks)

Question 05

- (a) **State** two(02) disadvantages of international trade. (02 marks)
- (b) **State** two(02) advantages of protectionism. (02 marks)
- (c) **Explain** three(03) consequences of devaluation of Sri Lankan Rupee against US Dollar (\$) to Sri Lankan economy. (06 marks)
- (Total 10 marks)

End of Section B

SECTION C

(Total 20 marks)

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	600
Government consumption expenditure	500
Gross domestic fixed capital formation	400
Changes in stock	200
Exports	400
Imports	250
Net factor income from abroad (Net foreign primary income)	-100

You are required to:

Calculate the following using the expenditure approach:

- (a) Gross Domestic Expenditure (GDE) at market price. (05 marks)
- (b) Gross Domestic Product (GDP) at market price. (03 marks)
- (c) Gross National Income (GNI) at market price. (02 marks)
- (B) (a) **Explain** the difference between Fiscal Policy and Monetary Policy of the government. (04 marks)
- (b) **Explain** what is meant by budget deficit. (02 marks)
- (C) (a) **State** two(02) measures that the government implements to prevent inefficiencies of resource allocation in a market economy. (02 marks)
- (b) **State** two(02) reasons for the failure of the government. (02 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.