



ASSOCIATION OF ACCOUNTING TECHNICIANS OF SRI LANKA

LEVEL I EXAMINATION - JANUARY 2022

(103) ECONOMICS

26-03-2022
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

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 Limited availability of resources to meet human needs and wants is known as:

- | | |
|-----------------------|---------------|
| (1) Opportunity cost. | (2) Scarcity. |
| (3) Economic cost. | (4) Choice. |

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

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

1.3 Which one of the following is **not** a reason for demand for money?

- | | |
|---------------------------|-------------------------|
| (1) Transaction motive. | (2) Substitutes motive. |
| (3) Precautionary motive. | (4) Speculative motive. |

- 1.4** For a certain commodity, the quantity demanded decreases from 20 to 10 when the price increases from Rs.20/- to Rs.40/-. The price elasticity of demand of that commodity would be:
- (1) Perfectly inelastic. (2) Inelastic.
(3) Unitary elastic. (4) Perfectly elastic.
- 1.5** The graph showing combination of two goods that give the consumer equal satisfaction and utility is:
- (1) Demand Curve. (2) Production Possibility Curve.
(3) Indifference Curve. (4) Supply Curve.
- 1.6** According to the Annual Report of the Central Bank of Sri Lanka for the year 2020, per capita income for the year 2020 was:
- (1) US \$ 3,682. (2) US \$ 4,057. (3) US \$ 4,200. (4) US \$ 3,924.
- 1.7** Which one of the following is an example for a direct cost?
- (1) Economic depreciation. (2) Normal profit.
(3) Cost of materials. (4) Interest income forgone.
- 1.8** Of the following, an item which is **not** included in the profile of human development would be:
- (1) Political freedom. (2) Economic stability.
(3) Equality. (4) Education.
- 1.9** Which one of the following is an example for financial intermediaries?
- (1) Leasing companies. (2) Employees' Provident Fund.
(3) Insurance companies. (4) All of the above.

1.10 Consider the following statements:

- (a)** A firm maximizes its profit, when firm's Marginal Revenue (MR) equals to Marginal Cost (MC).
- (b)** Economical use of advance technologies will lead to increasing returns to scale.
- (c)** Indivisibility of factors of production will lead to decreasing returns to scale.

Of the above, the correct statement/s, is/are:

- (1) **(c)** only.
- (2) **(a)** and **(b)** only.
- (3) **(a)** and **(c)** only.
- (4) **(b)** and **(c)** only.

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 Monopolistic competitive firms make normal profits only in the (*long run / short run*).

1.12 When prices of goods and services increase, the value of money (*rises / falls*).

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 There are no fixed factor inputs in the short run production process.

1.14 The law of diminishing marginal returns assumes that the variable factor inputs are homogeneous and a constant technology is existed throughout the production process.

1.15 As per the law of supply, there is an inverse (a negative) relationship between price of a good and the quantity supplied of that good.

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 shifts the Demand curve to the right.

1.17 State two(02) characteristics of Oligopoly market.

1.18 Explain briefly what is meant by change in demand.

1.19 Explain briefly what is meant by long run production in a production process.

1.20 State two(02) examples for leakages (withdrawals) of the circular flow of national income. (02 marks each, Total 40 marks)

End of Section A

SECTION B

(Total 40 marks)

Question 02

- (a) **State** three(03) characteristics of non-economic goods. (03 marks)
- (b) **Explain** how the basic economic problems are solved by the planned economic system. (04 marks)
- (c) **State** three(03) characteristics of labour as a factor of production. (03 marks)
- (Total 10 marks)

Question 03

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

$$Q_d = 160 - 10p$$

$$Q_s = 30p$$

Using the above information,

You are required to:

- (i) **Identify** the equilibrium price and quantity using a graph. (04 marks)
- (ii) **Calculate** producer's surplus. (02 marks)
- (b) **Explain** the consequences of imposing a unit tax for a commodity by the government as an indirect tax. (04 marks)
- (Total 10 marks)

Question 04

- (a) **State** three(03) measures that can be taken to control inflation. (03 marks)
- (b) **State** three(03) advantages of using electronic money. (03 marks)
- (c) **Explain** two(02) quantitative monetary policy instruments of the Central Bank of Sri Lanka. (04 marks)
- (Total 10 marks)

Question 05

- (a) **Explain** the term “Terms of Trade”. (03 marks)
- (b) **Explain** the Absolute Advantage Theory with an example. (04 marks)
- (c) **State** three(03) steps that can be taken to reduce the negative impact on devaluation of Sri Lankan rupee against US Dollar. (03 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	7,500
Government consumption expenditure	2,400
Gross domestic capital formation	800
Exports	1,300
Imports	2,000
Net Factor Income from abroad (Net Foreign Primary Income)	(600)

You are required to:

- (a) **Calculate** the following:
- (i) Gross Domestic Expenditure (GDE) at Market Price. (04 marks)
 - (ii) Gross Domestic Product (GDP) at Market Price. (03 marks)
 - (iii) Gross National Income (GNI) at Market Price. (02 marks)
- (b) **List** two(02) limitations on national income accounts. (02 marks)
- (B) **State** three(03) consequences having a negative economic growth of a country. (03 marks)
- (C) **Explain** three(03) macro-economic objectives. (06 marks)

End of Section C

(Total 20 marks)

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.