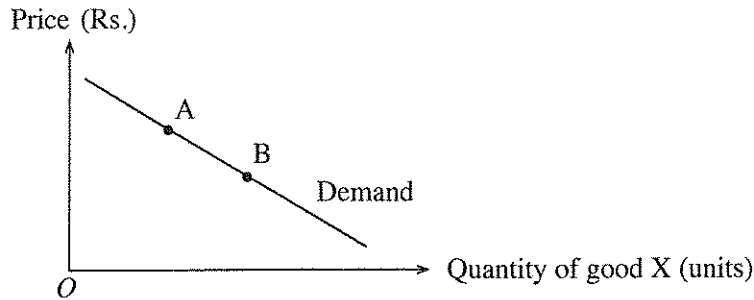


6. Which of the following would shift the supply curve of a good to the left?
 (1) An increase in the cost of production (2) A decrease in the cost of production
 (3) An increase in the price of a good (4) A decrease in the price of a good
 (5) A decrease in demand
7. If the demand for public transport service decreases when a person's income increases, then public transport service is an example of
 (1) an inferior good. (2) a free good. (3) a Giffen good.
 (4) a normal good. (5) a public good.
8. The diagram below shows the market demand curve for good X.

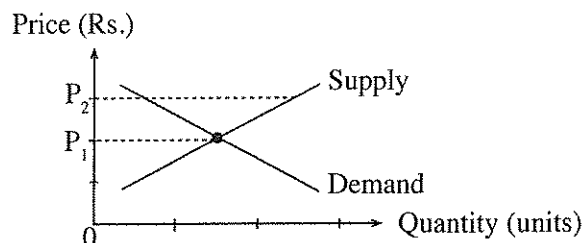


- Change in market equilibrium quantity from point A to point B would most likely be caused by
 (1) an increase in the price of a substitute product.
 (2) an increase in consumers' income.
 (3) a decrease in consumers' income.
 (4) a decrease in the cost of production of good X.
 (5) a decrease in the supply of good X.

9. Assume a hypothetical competitive market which is in equilibrium at Rs. 100 per unit. Now assume that the market supply curve changes from being elastic at each price to become inelastic at each price and the market equilibrium price does not change. What is the effect of this change on consumer surplus and producer surplus?

	Consumer surplus	Producer surplus
(1)	Increases	Decreases
(2)	Increases	Unchanged
(3)	Unchanged	Increases
(4)	Unchanged	Unchanged
(5)	Decreases	Increases

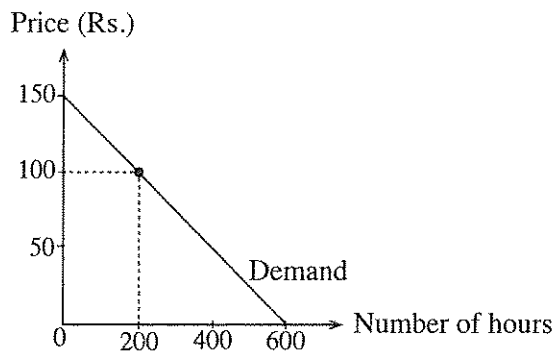
10. The diagram below shows the market demand and supply curves for a normal good.



The market equilibrium price could rise from P_1 to P_2 if

- (1) consumers' incomes increased.
 (2) the price of a complementary product increased.
 (3) cost of production was substantially lowered.
 (4) subsidies on the product increased.
 (5) price P_2 were set as a legally maximum price.

11. Assume that in a private higher education institute, the internet service at first was made available to its students at no charge. Later on, the institute decided to charge Rs. 100 per hour for the internet users and their demand curve for internet service is shown in the diagram below.



The value of the loss in consumer surplus after the introduction of the hourly charge is

- (1) Rs. 90 000.
- (2) Rs. 45 000.
- (3) Rs. 40 000.
- (4) Rs. 10 000.
- (5) Rs. 5 000.

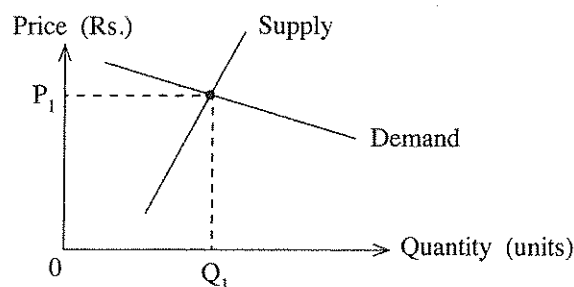
12. The Table below shows the demand and supply schedules for a consumer good before and after the imposition of a unit tax on production.

Price (Rs.)	Quantity demanded	Quantity supplied before tax	Quantity supplied after tax
65	650	550	450
70	650	600	500
75	650	650	550
80	650	700	600
85	650	750	650
90	650	800	700
100	650	850	750

What was the tax per unit and the amount of price change after tax?

- (1) Tax is Rs.10 and price change is Rs.5.
- (2) Tax is Rs.10 and price change is Rs.10.
- (3) Tax is Rs.50 and price change is Rs.75.
- (4) Tax is Rs.50 and price change is Rs.85.
- (5) Tax is Rs.10 and price change is Rs.80.

13. The diagram below shows a competitive market for an agricultural commodity.



If the government grants a per unit subsidy to the producers of this commodity, how will the economic surplus be distributed between producers and consumers?

- (1) The majority of economic surplus will go to consumers.
- (2) The majority of economic surplus will go to producers.
- (3) The economic surplus will entirely go to producers.
- (4) The economic surplus will entirely go to consumers.
- (5) The economic surplus will be shared equally between producers and consumers.

14. Setting an effective price floor would

- (1) increase consumer surplus and producer surplus.
- (2) increase consumer surplus and decrease producer surplus.
- (3) decrease consumer surplus and producer surplus.
- (4) decrease consumer surplus and increase producer surplus.
- (5) leave both consumer and producer surplus unchanged.

15. An industry with a small number of firms producing a standardized or differentiated product could be called

- (1) a competitive industry.
- (2) an oligopoly.
- (3) a monopolistically competitive industry.
- (4) a monopoly.
- (5) a pure competition.

16. Consider that a firm employs variable amounts of labour to a fixed amount of capital and engages in the production. If the daily wage paid to labour increases how does this affect the firm's cost?

	Total Variable Cost	Total Fixed Cost	Total Cost
(1)	Decreases	No change	Decreases
(2)	Decreases	Decreases	Decreases
(3)	Increases	Decreases	No change
(4)	Increases	No change	Increases
(5)	Increases	Increases	Increases

17. Consider a farmer who grows banana operates in a perfectly competitive market. If the market price falls in the short run the farmer should

- (1) increase the production until the new price equals average total cost.
- (2) increase production to offset the fall in price.
- (3) discontinue the production if the new price is less than marginal revenue.
- (4) continue to produce only if the new price covers average fixed costs.
- (5) continue to produce only if the new price covers average variable costs.

18. If one firm in a perfectly competitive industry experiences a technological breakthrough that lowers only that firm's cost of production, which of the following correctly describes the effect on this firm's price, output and profit?

	Price	Output	Profit
(1)	Decreases	Decreases	Decreases
(2)	Decreases	Increases	Increases
(3)	No change	Decreases	Increases
(4)	No change	Increases	Increases
(5)	Increases	Increases	Increases

19. Which phase of the business cycle is most likely to be characterized by an increasing positive output gap?

- (1) peak
- (2) recession
- (3) expansion
- (4) trough
- (5) contraction

20. Which one of the following is a component of the Gross Value Added (GVA) at basic price?

- (1) Intermediate consumption
- (2) Changes in inventories/stocks
- (3) Acquisition of valuables
- (4) Taxes less subsidies on the product
- (5) Other taxes less subsidies on production

21. Which of the following household purchases will be counted as a component of gross private investment in estimating country's Gross Domestic Product using expenditure approach?

- (1) Sovereign bonds
- (2) Shares of a company
- (3) Debentures issued by an investment bank
- (4) A new car for personal use
- (5) A newly constructed house

22. Which of the following is considered a property income?
 (1) Wages and salaries
 (2) Interest
 (3) Employers contribution to Employees Provident Fund
 (4) Non-Life Insurance claims
 (5) Subsidies
23. Consider that in an economy autonomous consumption is Rs.600 million and the marginal propensity to save is 0.2. If Gross National Disposable Income increases by Rs.1000 million in this economy, consumption spending will increase by
 (1) Rs.200 million. (2) Rs.600 million. (3) Rs.800 million.
 (4) Rs.1,400 million. (5) Rs.1,600 million.
24. The Table below shows national accounts data on consumption (C) and Gross National Disposable Income (Y_D) for a hypothetical economy.

Year	Consumption (Rs. million)	Gross National Disposable Income (Rs. million)
1	800	1 000
2	960	1 200

An increase in net exports lifted national economy by Rs.300 million in year 3. If all other things being constant, what was the increase in net exports?

- (1) Rs.300 million. (2) Rs.160 million. (3) Rs.100 million.
 (4) Rs.80 million. (5) Rs.60 million.
25. The short run aggregate supply curve
 (1) slopes downward and to the right. (2) slopes upward and to the right.
 (3) graphs as a horizontal line. (4) graphs as a vertical line.
 (5) is steeper below the full employment output.
26. Which of the following will lead to a decrease in an economy's money supply?
 (1) A decrease in income tax rates
 (2) A decrease in the discount rate
 (3) An open market purchase of government securities by the Central Bank
 (4) An increase in statutory reserve requirements
 (5) An increase in government expenditure on goods and services
27. When an economy is at full employment which of the following will most likely create demand-pull inflation in the short run?
 (1) An increase in the policy interest rates (2) An increase in personal income taxes
 (3) A decrease in the real rate of interest (4) A decrease in government spending
 (5) A decrease in the money supply
28. Suppose that all banks keep only the minimum reserves required by law and there are no currency drains. The legal reserve requirement is 10%. If a customer deposits Rs.1 000 in a current account, what is the maximum amount of increase in total money supply?
 (1) Rs.100. (2) Rs.1 000. (3) Rs.9 000. (4) Rs.10 000. (5) Rs.11 000.
29. If the government simultaneously engages in expansionary monetary and fiscal policies, which of the following is the effect on interest rate and unemployment?

	Interest rate	Unemployment
(1)	Increases	Indeterminate
(2)	Increases	Decreases
(3)	Decreases	Indeterminate
(4)	Indeterminate	Decreases
(5)	Indeterminate	Increases

30. If a Rs.300 million deposit in a commercial bank leads to a Rs.3000 million increase in the money supply, the reserve requirement must have been
 (1) 0.10%. (2) 0.12%. (3) 10%. (4) 12%. (5) 100%.
31. When a negative externality exists as a result of a production of a good, the socially optimum quantity of output could be achieved by
 (1) free market equilibrium.
 (2) subsidizing the production of output.
 (3) placing limits on the quantity that can be produced.
 (4) government purchases of the good.
 (5) setting a minimum on the quantity that can be produced.
32. Marginal cost of allowing one more person to use a pure public good is
 (1) positive. (2) negative.
 (3) zero. (4) infinite.
 (5) increasing with an increase in consumption.
33. A merit good is a good which
 (1) benefits both the recipient and society as well.
 (2) does not have a social cost in production.
 (3) private benefits of consuming the good exceed its social benefits.
 (4) cannot be supplied through market forces.
 (5) can be supplied efficiently through market forces.
34. Primary account balance of the government budget is defined as the difference between
 (1) tax revenue and capital expenditure.
 (2) total revenue including grants and total expenditure excluding interest payments on debt.
 (3) total revenue and total expenditure including repayment of debt.
 (4) tax revenue and recurrent expenditure.
 (5) total revenue and recurrent expenditure.
35. The biggest component of government recurrent expenditure in Sri Lanka at present is
 (1) interest payments. (2) salaries and wages. (3) pension payments.
 (4) fertilizer subsidy. (5) current transfers to public corporations.
36. Comparative advantage means that one country can produce
 (1) more of a certain product than another country.
 (2) a certain product at lower marginal cost than the other country.
 (3) a certain product at lower long run average total cost than another country.
 (4) a certain product at lower opportunity cost than the another country.
 (5) more of a certain product than another product.
37. The Table below shows the ability of the country X and country Y to produce rice and coffee when they use all of their resources for that product.

Country	Maximum output of Rice (Units)	Maximum output of Coffee (Units)
X	5000	5000
Y	10000	5000

What is the correct statement regarding the cost advantage of the two countries?

- (1) Country X has a comparative advantage in the production of rice.
 (2) Country X has a comparative advantage in the production of coffee.
 (3) Country X has an absolute advantage in the production of coffee.
 (4) Country Y has an absolute advantage in the production of coffee.
 (5) Country Y has a comparative advantage in the production of coffee.

38. What is the formula used to calculate a country's commodity terms of trade?

- (1) $(\text{Export Price Index} - \text{Import Price Index}) \times 100$
- (2) $(\text{Import Price Index} - \text{Export Price Index}) \times 100$
- (3) $\frac{\text{Export Price Index}}{\text{Import Price Index}} \times 100$
- (4) $\frac{\text{Import Price Index}}{\text{Export Price Index}} \times 100$
- (5) $\frac{\text{Export Volume Index}}{\text{Import Price Index}} \times 100$

39. Which of the following items is **not** included in the current account of a country's Balance of Payments?

- (1) invisible exports
- (2) interest payment on foreign loans
- (3) profits earned from foreign investments
- (4) the purchasing of foreign securities
- (5) food aid donated by United Nations Organization

40. In which of the following circumstances could the International Monetary Fund (IMF) be called into assist a country?

- (1) A trade dispute
- (2) A Balance of Payments crisis
- (3) A foreign investment dispute
- (4) An infrastructure funding shortage
- (5) An economic recession

41. Under which circumstances would the devaluation of currency be able to reduce the deficit in the current account of the Balance of Payments?

	Price elasticity of demand for exports	Price elasticity of demand for imports
(1)	0.6	0.1
(2)	0.1	0.4
(3)	0.5	0.5
(4)	0.7	0.2
(5)	0.8	1.6

42. At present, the value of an SDR consists of the weighted value of five major currencies, namely,

- (1) US Dollar, British Pound, Japanese Yen, Euro and Swiss Frank.
- (2) US Dollar, Swiss Frank, Chinese Yuan, Euro and Australian Dollar.
- (3) US Dollar, Canadian Dollar, Russian Ruble, Euro and Chinese Yuan.
- (4) US Dollar, British Pound, Japanese Yen, Australian Dollar and Euro.
- (5) US Dollar, British Pound, Japanese Yen, Euro and Chinese Yuan.

43. How many Sustainable Development Goals have been agreed by all nations as part of the 2030 Agenda for Sustainable Development?

- (1) 8
- (2) 11
- (3) 14
- (4) 17
- (5) 19

44. According to the Household Income and Expenditure Survey -2016, Poverty Head Count Index for urban and rural sectors in Sri Lanka are respectively,

- (1) 4.1% and 8.8%.
- (2) 2.0% and 4.0%.
- (3) 1.9% and 4.3%.
- (4) 1.7% and 3.3%.
- (5) 0.9% and 3.4%.

45. One of the components in Human Development Index is
- (1) the percentage of population underemployed.
 - (2) the average daily intake of protein.
 - (3) life expectancy at birth.
 - (4) the number of doctors per 1000 people in the population.
 - (5) the adult literacy rate.
46. Economic development refers to
- (1) economic growth.
 - (2) economic growth with changes in output distribution and economic structure.
 - (3) improvement in the well-being of the urban population.
 - (4) sustainable increase in Gross National Income.
 - (5) removal of income disparity of population.
47. Which one of the following economic issues can be evaluated with the use of a Lorenze curve?
- (1) The allocative and productive efficiencies in markets
 - (2) The comparative advantage in trading partners and the terms of trade
 - (3) Degree of specialization and growth within countries
 - (4) The equilibrium of market prices
 - (5) The degree of inequity in income distribution
48. The Table below shows employment data for a hypothetical economy.

Year	Population (Million)	Working-age population (Million)	Number of Employed (Million)	Number of Unemployed (Million)
1	50	25	12	3
2	60	32	14	2
3	70	40	20	5
4	80	45	24	6
5	90	50	26	4

In which year is the rate of unemployment 20% and labour force participation rate 60%?

- (1) Year 1 (2) Year 2 (3) Year 3 (4) Year 4 (5) Year 5
49. What can the economic development policy implemented in Sri Lanka during the period 1960-1977 be called?
- (1) outward-oriented export promotion policy
 - (2) inward-oriented import substitution policy
 - (3) neo-liberal economic policy
 - (4) open economic policy
 - (5) market-centred development policy
50. The top three sectors contributed to foreign exchange earnings of Sri Lanka in the recent years are
- (1) tea, textiles and garments and tourism.
 - (2) employees' remittances, textiles and garments and petroleum products.
 - (3) employees' remittances, textiles and garments and rubber products.
 - (4) tea, textiles and garments and petroleum products.
 - (5) employees' remittances, textiles and garments and tourism.

* * *

ශ්‍රී ලංකා විභාග දෙපාර්තමේන්තුව ශ්‍රී ලංකා විභාග දෙපාර්තමේන්තුව ශ්‍රී ලංකා විභාග දෙපාර්තමේන්තුව ශ්‍රී ලංකා විභාග දෙපාර්තමේන්තුව ශ්‍රී ලංකා විභාග දෙපාර්තමේන්තුව
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NEW

අධ්‍යයන පොදු සහතික පත්‍ර (උසස් පෙළ) විභාගය, 2019 අගෝස්තු
 கல்விப் பொதுத் தராதரப் பத்திர (உயர் தர)ப் பரீட்சை, 2019 ஓகஸ்ட்
 General Certificate of Education (Adv. Level) Examination, August 2019

ආර්ථික විද්‍යාව II
 பொருளியல் II
 Economics II

21 E II

06.08.2019 / 1300 - 1610

පැය තුනයි
 மூன்று மணித்தியாலம்
 Three hours

අමතර කියවීමේ කාලය - මිනිත්තු 10 යි
 மேலதிக வாசிப்பு நேரம் - 10 நிமிடங்கள்
 Additional Reading Time - 10 minutes

Use **additional reading time** to go through the question paper, select the questions and decide on the questions that you give priority in answering.

Instructions:

- * Answer **five** questions only, selecting minimum of **two** questions from Sub-section 'A' and **two** questions from Sub-section 'B'.
- * Graph papers will be provided.

Sub section 'A'

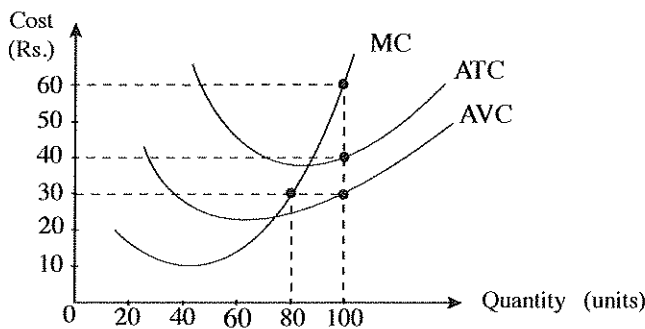
(Select minimum of **two** questions from this section.)

1. (i) Define and classify 'economic resources'. (04 marks)
- (ii) Explain why scarcity leads to trade-offs. (04 marks)
- (iii) How does the production possibilities frontier illustrate the following concepts?
 (a) problem of scarcity (b) opportunity cost
 (c) economic recession (d) economic growth (04 marks)
- (iv) Explain why all combinations of goods shown on a production possibilities curve display production efficiency but only one combination displays allocative efficiency. (04 marks)
- (v) How does a market economic system differ from a command economic system in solving the questions about resource allocation? (04 marks)
2. (i) (a) What factors influence the market demand for a normal good? (02 marks)
 (b) Explain why a reduction in the price of a normal good does **not** increase the demand for that good. (02 marks)
- (ii) Explain why the quantity demanded of a good decreases as its price increases. (04 marks)
- (iii) Market demand and supply equations for a particular commodity are given below.
 Demand equation: $Q_D = 60 - 3P$ Supply equation: $Q_S = -10 + 2P$
 Calculate the economic surplus at market equilibrium. (04 marks)
- (iv) Briefly describe the factors influencing price elasticity of supply. (04 marks)
- (v) Suppose the average monthly income of a consumer rises from Rs.35 000 to Rs.45 000 and the quantity of bread consumed by the consumer in the same month falls from 30 loaves to 20 loaves. What is the income elasticity of the demand for bread of this consumer? Is bread a normal or an inferior good under this situation? (04 marks)

3. (i) Mention **four** main factors influencing change in supply. (04 marks)
 (ii) Explain why the prices of primary products such as agricultural crops are often unstable in a market. (04 marks)
 (iii) What measures could be taken by the government to stabilize the prices of agricultural commodities? (04 marks)
 (iv) The equations relevant to market demand and supply curves for a particular good are given below.

Demand equation: $Q_D = 200 - 2P$ Supply equation: $Q_S = -100 + 4P$

- (a) Assume that the government has imposed a unit tax of Rs. 6 per unit on the production of this good. What price do buyers pay for the good after the tax? (04 marks)
 (b) How much revenue will the government collect from this tax? (04 marks)
4. (i) Distinguish between explicit (direct) and implicit costs. What are some of your explicit and implicit costs as a result of your attending school? (04 marks)
 (ii) What distinguishes a firm's short run period from its long run period in production process? (04 marks)
 (iii) What are the **four** basic assumptions of perfect competition? (04 marks)
 (iv) The diagram below presents a perfectly competitive firm operating in the short-run producing an equilibrium output of 100 units.



Calculate the following at the equilibrium level of output.

- (a) Total revenue received by the firm (02 marks)
 (b) Total cost incurred by the firm (02 marks)
 (c) Total fixed cost of the firm (02 marks)
 (d) Total economic profit or loss of the firm (02 marks)
5. (i) Which of the following items of government expenditure are 'collective' and which are 'individual'?
 (a) Fertilizer subsidy
 (b) Medical research
 (c) Police and fire brigades
 (d) School mid-day meal (04 marks)
- (ii) You have been given the following data for a hypothetical economy.

Item	Value (Rs. billion)
Compensation of employees	2 500
Gross operating surplus	6 000
Consumption of fixed capital	700
Other taxes less subsidies on production	50
Taxes on products	1 200
Subsidies on products	250
Net primary income from the rest of the world	-400
Net current transfers from the rest of the world	1 000

Calculate the following based on the above data.

- (a) Gross Value Added at basic price (02 marks)
- (b) Gross Domestic Product (02 marks)
- (c) Net National Income (02 marks)
- (d) Gross National Disposable Income (02 marks)
- (iii) Use a 45° line diagram to illustrate macroeconomic equilibrium. In your diagram show the aggregate expenditure function and the equilibrium level of national income. (Make sure that axes are properly labelled.) (04 marks)
- (iv) Suppose in a hypothetical economy marginal propensity to consume is 0.9 and when the Gross National Disposable Income is zero, aggregate consumption is 100. Assume that investment (I) = 200, government purchases (G) = 45, net exports (NX) = 0, and taxes (T) = 50. (All figures are in Rs. billions)
- (a) Find the equilibrium level of Gross National Income (Y). (02 marks)
- (b) What would be the effect on equilibrium national income of a simultaneous increase in government purchases (G) and taxes (T) of Rs. 10 billion? (02 marks)

Sub section 'B'

(Select minimum of two questions from this section.)

6. (i) What is the GDP deflator? What are the major differences between GDP deflator and the Colombo Consumers' Price Index. (04 marks)
- (ii) Explain the concept of inflationary gap using a diagram. (04 marks)
- (iii) Distinguish between the transactions demand for money and speculative demand for money. (04 marks)
- (iv) Suppose that a bank customer newly deposits Rs. 10 000 in the current account and the required reserve ratio is 0.25.
- (a) What are the required reserves for this new deposit? (02 marks)
- (b) What is the maximum amount of loan that the bank can grant on the basis of this new deposit? (02 marks)
- (v) Explain the role of the standing rate corridor in maintaining the stability of financial system in Sri Lanka. (04 marks)
7. (i) Mention **four** major functions of government in a mixed economy. (04 marks)
- (ii) What are the obstacles to achieve an efficient allocation of resources in a market economy? (04 marks)
- (iii) Define pure public goods, merit goods, common resources and natural monopolies. (04 marks)
- (iv) Explain why taxes are necessary for a country and briefly outline the desirable properties of a good tax. (04 marks)
- (v) What is meant by the 'primary balance' of the government budget? Why is it considered to be important to have a surplus in the primary balance? (04 marks)

8. (i) Name **four** main items each for exports and imports of Sri Lanka. (04 marks)
- (ii) What is 'competitive advantage'? What are the sources of competitive advantage? (04 marks)
- (iii) A summary of transactions of the Balance of Payments of a hypothetical economy is given in the Table below. (All figures are in Rs. billion)

Item	Value	Item	Value
Exports of goods	1500	Government capital transfers (net)	120
Imports of goods	1300	Private capital transfers (net)	80
Exports of services	500	Net direct investments	350
Imports of services	400	Net portfolio investments	150
Investment income receipts	800	Net other investments	120
Investment income payments	600	Reserve assets	160
Net current transfers	100	Errors and omissions	20

Calculate the following using above data.

- (a) The Balance of Trade (02 marks)
- (b) The Balance of Current Account (02 marks)
- (c) The Balance of Financial Account (02 marks)
- (d) Net Exports (02 marks)
- (iv) Explain the reasons for the sharp depreciation of the Sri Lankan rupee relative to the American dollar during the latter part of 2018. (04 marks)
9. (i) What are the conditions necessary for economic growth to translate into improvements in the quality of life? (05 marks)
- (ii) What is meant by 'social protection'? Name **three** major components of the social protection programme in Sri Lanka. (05 marks)
- (iii) "Gini coefficient is a useful summary statistic for measuring income inequality, but it does not convey as much information as Lorenz curves". Explain. (05 marks)
- (iv) What are the reasons for the existence of a large gender gap in the labour force participation rate in Sri Lanka? (05 marks)
10. (i) Briefly discuss Sri Lanka's performance in recent years with respect to the achievement of economic growth and public debt sustainability. (05 marks)
- (ii) What factors have prevented Sri Lanka from progressing towards high income country status? (05 marks)
- (iii) "Sri Lanka has been listed as one of the countries most vulnerable to climate change." Briefly describe the possible impact of climate-induced disasters on the country's GDP and public finances. (05 marks)
- (iv) Briefly explain the key features of China's 'Belt and Road Initiative (BRI)' and its economic implications for Sri Lanka. (05 marks)

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