



NALANDA COLLEGE - COLOMBO 10

G.C.E. (A / L) EXAMINATION - 2019

FINAL TERM TEST – JUNE 2019

ECONOMICS - II

GRADE 13

Time :- 03 Hours

21 E II

Name : Class : Index No :

Instructions :

- * 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.
- * Answer five questions only, selecting minimum of two questions from Sub - section "A" and two questions from Sub - section "B".

Sub Section "A"

(Select minimum of two questions from this section.)

- (01) (i) What is the main function of Economics. (02 marks)
- (ii) "Risk comes from not knowing what you're doing" Warren Buffet – An American Entrepreneur, Considered one of the most successful investors in the world.
What is the "risk" faces by an entrepreneur? (03 marks)
- (iii) Demonstrates the impact of following events on Sri Lankan economy by using production possibilities diagrams.
(a) "13 years of guaranteed education program."
(b) Temporary downfall of economic activities due to the Easter Sunday Terrorist Attacks. (04 marks)
- (iv) Why is public entrepreneurship and public ownership of properties so critical to the success of the planned economy? (05 marks)
- (v) "Mr. and Mrs. Perera, a newly married young couple, is planning to migrate Australia. They are expecting your advices to understand the Performances of Australian economy". How do you help them? Explain. (06 marks)
- (02) (i) "The demand for a milk packet" (02 marks)
What do you meant by this statement?
- (ii) What factors determine the price elasticity of supply for a consumer good? (03 marks)

- (iii) The following equations describe the market demand and supply functions of a commodity.

$$Q_d = 100 - 5P, Q_s = 5P$$

- (a) Calculate the equilibrium price and quantity using the equations. (02 marks)
(b) Calculate producer surplus and consumer surplus at market equilibrium. (02 marks)

- (iv) "The price of school stationery items remains unchanged even in the case of increasing both demand and supply". Explain with the help of an appropriate diagram. (05 marks)

- (v) "Mrs. Perera, a famous feminist author, asks your advice to decide the price of her next book, "The impact of feminism on economic policies in Sri Lanka." Using the relationship between price elasticity of demand and total revenue, How do you help her? Explain. (06 marks)

- (03) (i) Identify two ways of government intervention to the market. (02 marks)
(ii) Indicate, using an appropriate diagram, how the producer surplus behave when a unit tax imposes on producers. (03 marks)
(iii) Distinguish between "Purchasing of excess supply and deficiency payment system." (04 marks)
(iv) Explain, using an appropriate diagram, the distribution of tax burden of a specific (unit) tax on producers when supply is elastic and demand is inelastic. (05 marks)
(v) "On 08 February 2017 – Maximum retail price of Samba rice was set as Rs. 80/- per Kg"

Discuss whether the imposition of maximum prices can improve the allocation of scarce resources. (06 marks)

- (04) (i) What does "production function" indicate? (02 marks)
(ii) When marginal product of the short run production function of a firm is zero, the total product is maximized". Indicate using an appropriate diagram. (03 marks)
(iii) "Normal profits are more than sufficient to keep the firms in the industry in the long run". Do you agree with this statement? Explain. (04 marks)
(iv) A firm in a perfect competitive industry is facing the following situation in the short run.

1. The current level of output = 5000 units.
2. Market Price = Rs. 10/- per unit
3. Total Cost = Rs. 80000/-
4. Total Fixed Cost = Rs. 40000/-
5. Marginal Cost = Rs. 8/-

If the firm expects profit maximization, briefly explain the next decision of this firm.

(05 marks)

- (v) "Economic profit is the economic rent of the entrepreneurship". Do you agree with this statement? Explain. (06 marks)

- (05) (i) Who is authorized to compile National Accounts of Sri Lanka. (02 marks)
 (ii) Why is pension considered to be a transfer payment? (03 marks)
 (iii) Suppose you are given the following details about Sri Lankan economy for the year ended 2018. (All figures are in Rs. billion)

Employee compensation	4134
Gross operating surplus	9074
Other taxes less subsidies on production	41
Taxes less subsidies on products	1200
Net primary income from rest of the world	- 392

Calculate;

- (a) Gross value added (GVA) at basic price (02 marks)
 (b) Gross National Income (GNI) at market price (02 marks)
 (iv) Discuss the impact of frequent large revisions to National Accounts Estimates. (05 marks)
 (v) Consider the data given below for a hypothetical economy. (Figures are in Rs. billion)
- Autonomous Consumption = 500
 - Planned Investment = 1000
 - Government purchases = 1500
 - Net exports = - 500
 - Marginal propensity to save (MPS) = 0.1
- (a) Calculate the equilibrium level of National Income. (04 marks)
 (b) If the government intends to increase the National income by 20%, What would be the required level of investment. (02 marks)

Sub Section "B"

(Select minimum of two questions from this section.)

- (06) (i) What is the key role of money? (02 marks)
 (ii) Identify the macroeconomic variables that determine the demand for money. (03 marks)
 (iii) Discuss the importance of property price indices as leading economic indicators. (04 marks)

- (iv) Assume that one of the commercial banks in the banking system has cash reserves of Rs. 300 billion, loans of Rs. 700 billion and deposits of Rs. 1000 billion. If the reserve requirement is 12%,
(03 marks)
- (a) Prepare the balance sheet for this bank.
(02 marks)
- (b) What is the largest loan this bank can make?
- (v) Briefly explain the followings.
(06 marks)
- (a) Inflation target.
- (b) International Transactions reporting system. (ITRS)
- (c) National Payment system.
- (07) "National security is the security of a Nation State including its citizen, economy and institutions, which is regarded as a duty of government. National security is the prominent example for a public good."
(02 marks)
- (i) What is identified as a "Public good?"
- (ii) Explain how the existence of negative externalities of production lead to inefficient allocation of resources in an economy. Illustrate your answer with appropriate diagrams.
(03 marks)
- (iii) Briefly indicate the financial performance of major state owned business enterprises (SOBES) in recent years.
(04 marks)
- (iv) Identify the key expenditure rationalization measures taken by the government of Sri Lanka in recent years.
(05 marks)
- (v) "One of the main priorities of the government is to reduce the central government debt to a sustainable level in the in the medium term through fiscal consolidation measures"
Explain, using appropriate statistics, the recent behavior of the outstanding central government debt of Sri Lanka.
(06 marks)
- (08) (i) What are the key benefits that countries derive from international trade? (02 marks)
- (ii) Explain the relationship between "Trade war" and "Protectionism". (03 marks)
- (iii) Explain, using appropriate example, "Technology" as a source of comparative advantage.
(03 marks)
- (iv) Identify the measures taken to curtail high import expenditure to mitigate the adverse impact on exchange rate in recent years.
(04 marks)
- (v) What is "Real Effective Exchange Rate?" Explain the importance of rebasing of the real effective exchange rate?
(04 marks)

- (vi) "Sri Lanka has lagged behind in terms of its export performance in comparison to the rest of the world, particularly regional peers. Identifying the consequences of weak export performance, the government introduced a National Export strategy (NES) for the period 2018 – 2022."
Identify the objectives of NES. (04 marks)

- (09) (i) Distinguish between "Economic growth" and "Economic growth rate." (04 marks)
- (ii) Explain the relationship between "National Security" and "Economic growth". (04 marks)
- (iii) "Sustainable development is the most challengeable task of a country, NOT the economic growth or economic development". Discuss the validity of this statement. (04 marks)
- (iv) "As per the world Bank Classification, 0.8% of the population was below the international poverty line of US dollars 1.90 per day (in 2011 purchasing power parity terms) in 2016". Briefly explain the recent behavior of the poverty levels in Sri Lanka as reflected by the Poverty Head count Ratio. (04 marks)
- (v) "The increase in the elderly population in Sri Lanka highlights the need for secure social security schemes". Discuss the validity of this statement. (04 marks)
- (10) (i) "For Sri Lanka to succeed as a higher income economy and improve the well being of its people it is essential that the root causes for the continued low by expediting the required structural reforms"

Source : Annual Report of CBSL – 2018.

- (a) How does the World Bank identify "a higher income economy"? (02 marks)
- (b) Identify the root causes for the continued low economic growth rate. (02 marks)
- (c) Identify the required structural reforms. (04 marks)

- (ii) "The fourth Industrial Revolution (4IR)"

The 4IR is disrupting economics and societies by redefining the way we work, live and interact with each other, The 4IR offers the potential to leapfrog stages of development".

Source : Global comprehensive Report – 2018

- Identify the economic potential of the 4IR? (04 marks)
- (iii) Discuss the importance of a stronger "Agriculture Quarantine Framework" to improve resilience of the agriculture sector in Sri Lanka. (04 marks)
- (iv) Identify the economic variables that are likely to be affected by the recent Easter Sunday terrorist attacks in Sri Lanka. (04 marks)