

Time 2 hours
Instructions Answer 5 questions only.

1.
 - i. How does freedom to enterprise and freedom of choice affect functioning of free market economy? (4 marks)
 - ii. Explain difference between the following terms: (02 marks each)
 - a. Traditional Economy Vs. New Traditional economies
 - b. Social market economy Vs. socialist market economy
 - c. Social Capital Vs. Human capital
 - iii. "Property ownership is essential for the functioning of a market economic system. "Do you agree? Explain (3 marks)
 - iv. Using an appropriate diagram explain how government intervenes each and every section of a mixed economic system. (4 marks)
 - v. What are the characteristics of Islamic economic systems? (3 marks)
2.
 - i. "When you move along the demand curve, you must hold income constant, yet one factor that can cause a change in the quantity demanded is an "income effect". Explain. (03 marks)
 - ii. "A Giffen good is an inferior good, but an inferior good is not necessarily a Giffen good." Explain. (3 marks)
 - iii. What types of goods have (02 marks)
 - a. Positive price elasticity of demand.
 - b. Negative cross elasticity of demand
 - c. Income elasticity of demand greater than one
 - d. Income elasticity of demand less than one
 - iv. "Without a want a demand may not occur, but demand is not just a want." Do you agree? Explain? (03 marks)
 - v. What is the difference between change in supply and change in elasticity of supply? (03 marks)

- vi. Using an appropriate diagram, appropriate diagram show consumer surplus, producer surplus, government expenditure and dead weight loss in following incidences.
 - a) Price floor without a price support system (02 marks)
 - b) Price floor with a price support system that government purchases excess stocks (02 marks)
 - c) Price floor with a deficiency payment system (02 marks)

3.

- i. Why do economists regard normal profit as a cost? (04 marks)
- ii. Using an appropriate diagram, explain the relationship between average production, marginal production and total production curves. (04 marks)
- iii. What is the reason for the fixed cost curve to become a horizontal straight line whereas total variable cost curve to become a curve with an upward sloping curve?(04 marks)
- iv. 'Economies of scale can mostly be able to obtain by the large scale businesses'. Briefly explain main factors contribute to create economies of scale and how large scale businesses receive advantage of economies of scale rather than small businesses. (04 Marks)
- v. For a particular factor of production, in which situation the total factor earnings will consist of only with economic rent? Explain your answer with use of a diagram (4 marks)

4.

- i. "All production activities should be included in GDP calculations" Do you agree? Explain your answer with examples. (4 marks)
- ii. What is the impact of the following economic activities on GDP of a particular year? (4 marks)
 - a. Service given by the hired family driver
 - b. Increase in forest area
 - c. Dividend income earned by selling shares
 - d. Purchasing of a bond
- iii. How does the problem of double counting arise in calculating GDP, and how is it corrected? (4 marks)
- iv. You have been given the following data for a hypothetical economy

Item	Value (Rs. Billion)
Value added in agricultural sector	2 400
Value added in industrial sector	3 200
Receipts of primary income	6 000
Taxes on goods and services	12 000
Fixed capital consumption	7 400
Payments of primary income	9 000

Subsidies on goods and services	5 000
Value added in service sector	4 200

Calculate the following based on the following data

- a. Gross domestic product at market price (02 marks)
- b. Net domestic product at market price (02 marks)
- c. Gross National Income (2 marks)
- d. Net national income (2 marks)

5.

- i. Examine the economic costs of large budget deficits. (05 marks)
- ii. For what economic reasons might there be public hostility to the transfer of publicly-owned assets to the private sector. (04 marks)
- iii. There are progressivity, proportionality and regressively characteristics of the major taxes of the central government of Sri Lank. Give three examples of taxes to represent each of these characteristics. (3 marks)
- iv. Explain following terms:
 - a. Externalities (01 marks)
 - b. Interim budget (01 marks)
 - c. Neutrality of taxation (01 marks)
 - d. Common resources (01 marks)
 - e. SOE (State Own Enterprises) (01 marks)
- v. Distinguish between statutory tax incidence and economic tax incidence (03 marks)

6.

- i. What are the key expectations of taxation? (3marks)
- ii. In order to create an equitable tax system there are 2 principles that need to be adhered. What are they? Explain. (2 marks)
- iii. What are the 2 policies used to explain how public finance helps in achieving macro-economic objectives? Explain. (4 marks)

- iv. What is meant by crowding out effect of financing budget deficit? What are the 2 main reasons for creating crowding out effect? (3 marks)
- v. Use a diagram to explain how, negative externalities of production results to market failure? (4 marks)
- vi. Give recent statistics regarding government expenditure? (4 marks)

7.

- i. Define & give reasons causing 'market failure' & 'government failure' (05 marks)
- ii. Explain how following events creates externalities in a market economy:
 - a. Many schooling age students gets education (01 Mark)
 - b. Too many vehicles on the road and creates severe traffic congestion(01 Mark)
 - c. Provide vocational training to unemployed workers. (01 Mark)
 - d. Not having proper waste disposal mechanism (01 Mark)
 - e. Broadcast loud music through loud speakers and create public nuisance (01 Mark)
 - f. Spray words and make public places unpleasant (01 Mark)
 - g. Provide vaccinations to avoid communicable diseases. (01 Mark)
 - h. Expenditure on research and development (01 Mark)
- ii. "Sri Lanka's public finances are at a terrifying state" (Institute of policy Studies). Identify the major weaknesses in public finances in Sri Lanka at present. (4 marks)
- iii. Define what is 'imperfect information' and 'asymmetric information' and explain how would both of them lead to market failure? (03 marks)