Time 2 hours
Instructions Answer all the questions.

1. Which statement about the factors of production is correct?
   I. Capital is a financial resource and includes savings in banks.
   II. Enterprise is limited in supply and includes office workers.
   III. Labour is a human resource and includes pensioners and children.
   IV. Human capital is one of the factors of production.
   V. **Land is a natural resource and includes trees and fish.**

2. A farmer sells land used for crops to a firm that will use the land for wind turbines to produce electric power. What is the opportunity cost of this decision by the farmer?
   I. the cost of installing wind turbines
   II. **the loss of revenue from crops that grow on the land**
   III. the profit made from selling the land
   IV. the reduced cost of producing renewable energy
   V. the revenue made from selling the land

3. Which result of increased specialisation in a firm is an advantage for the firm, but a disadvantage for some of the workers in the firm?
   I. **greater mechanisation**
   II. higher labour productivity
   III. higher skill levels
   IV. lower production costs
   V. longer training times

4. A feature of "Capital" as a production factor is,
   I. Immovable factor
   II. Inelastic supply
   III. **Having a productivity**
   IV. Gift of the nature
   V. Non – depreciating

5. Sanjay is a risk taker and sets up a restaurant in Colombo. Sanjay works for the business as a chef. He leases the restaurant building from Raghav and employs him to serve the customers. Which income is earned by Sanjay and Raghav?

	Sanjay	Raghav
A	interest and profit	wages only
B	interest and wages	profits and rent
C	profits and wages	rent and wages
D	profits only	interest and wages

   I. **A**

II. B
III. C
IV. D
V. None of the above

6. Why do consumers have to make choices when spending their income?
   I. Advertising encourages consumer spending.
   II. Consumers have unlimited incomes.
   III. <u>Consumer wants cannot all be satisfied with their income.</u>
   IV. Not all products will be attractive to consumers.
   V. Income is not proportionately divided in the society.

7. What is the most correct statement in economics about positive statements?
   i. Positive statements should be correct.
   ii. Positive statements cannot be tested with real information and data
   iii. <u>Positive statements are scientific.</u>
   iv. Positive statements are not used to explain the economic behavior and phenomenons.
   v. Economic polices are based on positive statements.

8. Which of the following statement is correct,
   I. Economic goods are produced using only non-scare resources.
   II. Any good which satisfies a human need/want is considered as an economic good.
   III. <u>Free goods do not use scarce resources thus they don't have a commercial value.</u>
   IV. Every good which a price is not charged becomes a free good.
   V. Free goods do not always satisfy human needs/wants

9. Economics is divided into two: microeconomics and macroeconomics.

   Statement 1: When the price of oil falls there is an expansion in demand.

   Statement 2: The Organization of the Petroleum Exporting Countries (OPEC) can influence the price of oil.

   Which combination correctly describes these two statements?

	statement 1	statement 2
A	macroeconomic statement	macroeconomic statement
B	macroeconomic statement	microeconomic statement
C	microeconomic statement	macroeconomic statement
D	microeconomic statement	microeconomic statement

I. A
II. B
III. C
IV. <u>D</u>

V. None of the above

10. Due to the skills and talents of an entrepreneur the profit that can be earned with different businesses are as follows.
Garment factory - Rs. 500,000

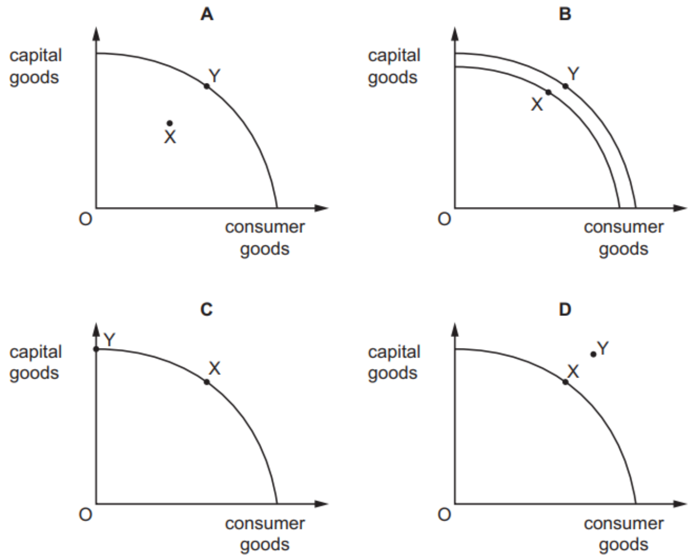
Tea plantation - Rs. 170,000

Software company - Rs 350,000

The opportunity cost of selecting the garment factory as his business is,

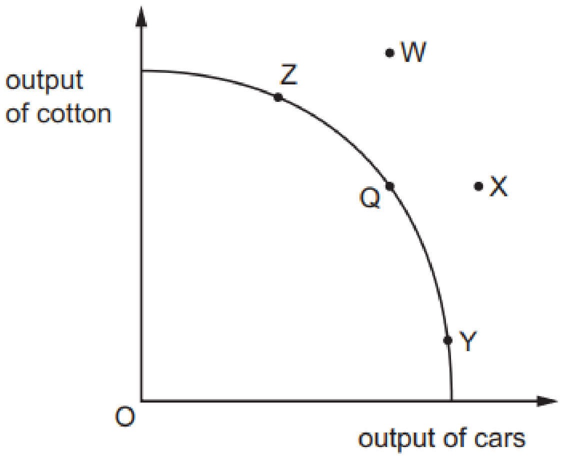
I. Rs. 350000
II. Rs. 170000
III. Rs. 150000
IV. Tea Plantation
V. Software company

11. Which diagram shows an opportunity cost by movement from point X to point Y?



I. A only
II. B only
III. C only
IV. A and B only
V. B and D only

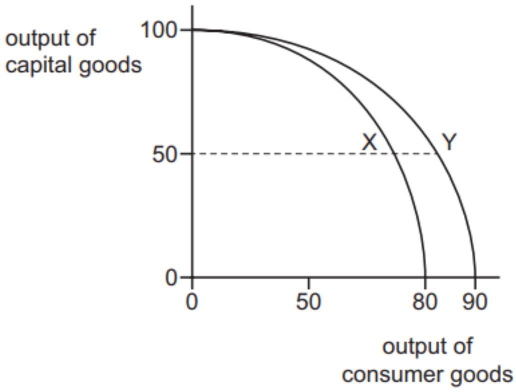
12. The diagram shows a production possibility curve (PPC) for an economy that can produce cotton and cars. The economy is at point Q.



There is improved technology that can only be used in the production of cars. How would this be represented on this diagram?

I. by a movement from Q to W
II. <u>by a movement from Q to X</u>
III. by a movement from Q to Y
IV. by a movement from Q to Z
V. none of the above

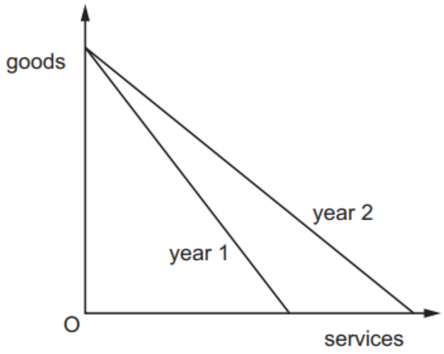
13. The diagram shows two production possibility curves.



Which statement about the movement from point X to point Y is correct?

I. Demand for consumer goods has risen.
II. The opportunity cost for producing consumer goods has risen.
III. <u>There has been an increase in productivity in consumer goods production.</u>
IV. There has been an inward shift in the production possibility curve.
V. Production of capital goods has been sacrificed

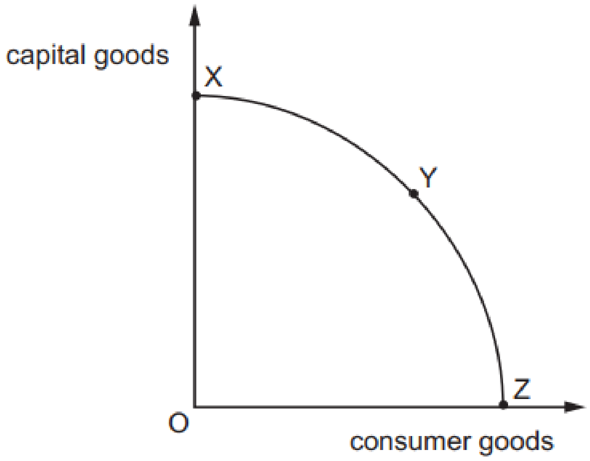
14. The diagram shows the change in an economy's production possibility curve (PPC) from year 1 to year 2.



What might explain the change from year 1 to year 2?

I. Resources have moved from the production of services to the production of goods.
II. The number of workers unemployed in manufacturing has fallen.
III. <u>The producers of services have introduced better technology.</u>
IV. The workers in the production of goods have become less efficient.
V. All of the above except IV.

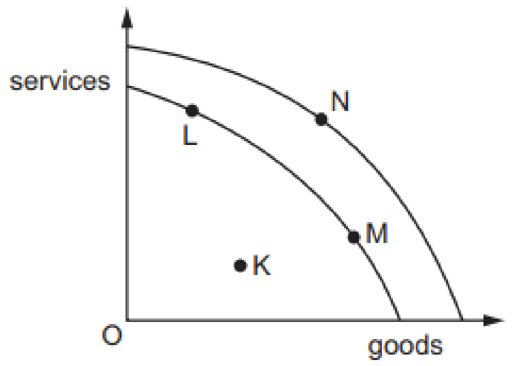
15. The diagram shows the production possibility curve (PPC) for an economy.



What will happen to the opportunity cost of producing more units of consumer goods in terms of capital goods as the economy moves down its PPC from point X to point Z?

i. It will decrease continuously from point X to point Z.
ii. It will decrease up to point Y and then increase towards point Z.
iii. <u>It will increase continuously from point X to point Z.</u>
iv. It will increase up to point Y and then decrease towards point Z.
v. It will decrease up to point Y and then increase towards point Z.

16. The diagram shows two production possibility curves for an economy. Which combination of movements correctly illustrates these changes in production?

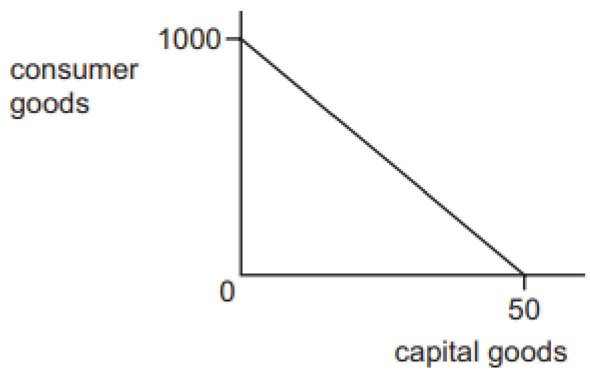


	short-run economic growth	long-run economic growth	no economic growth	zero opportunity cost production
I	K to L	L to M	M to N	K to L
<u>II</u>	**<u>K to L</u>**	**<u>M to N</u>**	**<u>L to M</u>**	**<u>K to M</u>**
III	M to N	K to L	M to K	K to L
IV	M to N	L to M	L to K	K to L
V	L to N	K to M	N to M	K to M

17. An economist knows the current point at which an economy is operating within its production possibility curve. What can the economist judge from this knowledge about the economy?

    I. its degree of self-sufficiency
    II. its international competitiveness
    III. <u>its level of output of two goods</u>
    IV. its rate of economic growth
    V. None of the above

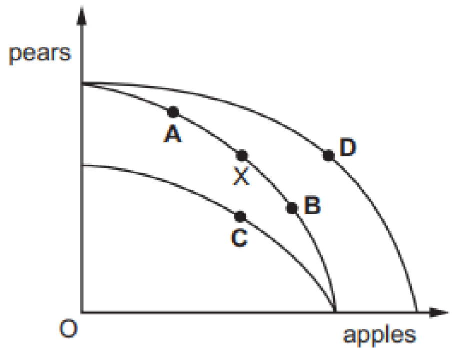
18. The diagram shows an economy's production possibility curve. It has been employing its resources in the ratio of 80% consumer goods production and 20% capital goods production.



What will be the result if it decides to double its production of capital goods?

    I. An additional gain of 20 capital goods
    II. an additional gain of 40 capital goods
    III. <u>a loss of 200 consumer goods</u>
    IV. a loss of 400 consumer goods
    V. a loss of 600 consumer goods

19. The diagram shows a production possibility curve for a farmer. The original position is X. If the farmer switches some of his land from producing pears to producing apples, which point represents his new position?



I. A
II. <u>B</u>
III. C
IV. D
V. None of the above

20. What would be a determinant of a country's production possibility curve boundary?
I. <u>the capital invested in infrastructure</u>
II. the level of price and wage inflation
III. the level of unemployed labour
IV. the volume of imports and exports
V. none of the above

21. What is an economist's definition of a market?
I. a collection of informal retail outlets run by small firms
II. a place where traders gather regularly for short periods
III. <u>a system that enables individuals and firms to buy and sell goods</u>
IV. the existence of consumer demand for a good
V. the point of where MB = MC

22. What is an advantage of a market economy in the allocation of resources?
I. It ensures that all consumers are willing to pay the same price.
II. It fixes prices based on costs of production.
III. It guarantees suppliers will make a profit.
IV. <u>It indicates the relative demand for goods and services.</u>
V. None of the above

23. Which characteristics of a product will cause market failure?
I. Information about the product is known equally by consumers and producers.
II. The consumption of the product has no external benefits.
III. <u>The product is non-rival and non-excludable.</u>
IV. The production of the product has no external costs.

V. The market price reflects both the private and external costs of production.

24. Why does a government provide certain goods and services in a mixed economic system?
    I. The government always provides goods more cheaply than private firms.
    II. The government considers only private costs and benefits.
    III. The government provides goods to prevent the development of monopolies.
    IV. **<u>The government provides public goods because private firms cannot charge for them.</u>**
    V. All of the above

25. In a city, what is most unlikely to be provided by the private market system?
    I. a museum
    II. a school
    III. a sports field
    IV. **<u>street lights</u>**
    V. all of the above

26. The transition of centrally planned economies to market economies was accompanied by a significant change in the composition of output. What was an immediate consequence of this transition?
    I. a build-up of unsold stocks of goods
    II. an increase in exports of goods
    III. **<u>an increase in unemployment</u>**
    IV. decreasing prices of goods and services
    V. None of the above

27. Consumers do not use enough of a product to maximize their private benefit because they have imperfect information about the product. How would an economist classify this product?
    I. demerit good
    II. free good
    III. **<u>merit good</u>**
    IV. public good
    V. All of the above

28. A government wants to move its economy away from central planning towards a market economy. Which policy would be consistent with this aim?
    I. introduce tariffs on imported goods
    II. nationalize the ownership of electricity generation
    III. provide free education for primary school pupils
    IV. reduce prices of foods such as wheat and rice
    V. **<u>none of the above</u>**

29. What justifies government intervention in the provision of a merit good such as education?
    I. People who pay for education value it more than those who cannot pay.
    II. Private schools have more merit than state schools.
    III. Social costs of providing education outweigh social benefits of education.
    IV. **<u>Some consumers do not fully recognize the value of education.</u>**

V. Both I and III

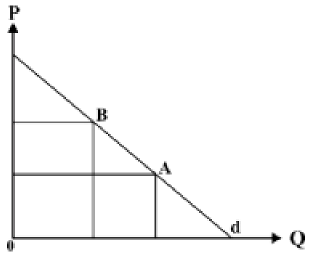
30. The fundamental economic question is how to meet unlimited wants with limited resources. What is an example of limited resources?
    I. insufficient consumer goods in the local shops
    II. insufficient jobs to allow full employment
    III. **insufficient machinery to produce electrical goods**
    IV. insufficient tax revenue to finance building a school
    V. none of the above

31. Select the correct statement among followings.
    I. To purchase the commodity although wants should have a plan, plan is not necessary for a demand.
    II. Demand is unlimited and wants are constrained by the income.
    III. No special plan is made on demand.
    IV. **Among unlimited wants, the wants those can be satisfied with purchasing power is the demand**.
    V. Wants are created on demand

32. Each point along the demand curve shows
    I. **The maximum price which is determined by the purchasing power and consumer desire as how much to buy at that price**
    II. The maximum price which is accepted by producers for all the units that they produce.
    III. The technical mechanism that the cost is minimized to produce a commodity.
    IV. All the wants of a given household.
    V. The prices that both consumers and producers are agreed.

33. If motor vehicle and fuel are complementary goods, what will happen for the motor vehicle market due to increase in fuel price?
    I. The equilibrium price of motor vehicle increases.
    II. **The equilibrium price and equilibrium quantity of motor vehicle reduce**.
    III. The supply curve of motor vehicle shifts to left.
    IV. The supply curve of motor vehicle shifts to right.
    V. The demand curve of motor vehicle shifts to right.

34. What would be the reason to move the point A towards B in the given demand curve?



    I. A technological improvement used in the production.
    II. Following tax relief policies for the relevant good.
    III. Expected price reduction in future

IV. Increase in desire for the commodity
V. <u>Increase in production cost of the good</u>

35. The table shows the price of demand and supply of X per week.

Price	Demand (kg)	Supply (kg)
40	32	20
60	24	24
80	20	24

What will be the effect if the government imposes a minimum price of Rs.40 per kg?

i. A fall in price of X
ii. A shortage of X
iii. A waiting list for X
iv. <u>no impact happens to the market</u>
v. An excess of X

36. Total income is 39, 600 and the total income is used to purchase Good A, which is a normal good. The quantity demanded of good A decreased to 240 units following a price increase. The income effect and substitution effect of good A are 66 units and 24 units respectively. What was the market price before the price increase and after the price increase respectively?

I. Rs.600 and Rs.165
II. Rs.440 and Rs.165
III. Rs.120 and Rs.150
IV. <u>Rs.120 and Rs. 165</u>
V. Rs.165 and Rs.264

37. How would an economist establish the market demand curve for a private good?

I. By adding consumer surplus to total expenditure
II. <u>By combining individual demand curves horizontally</u>
III. By combining the price elasticity of individual demands
IV. By multiplying price by quantity demanded
V. By combining individual demand curves both horizontally and vertically

38. Even though Cinema halls screen movies on usual times, cinema attendance has decreased due to the spared of Corvid virus. How would this change be shown on a demand and supply diagram?

demand curve for cinema tickets	supply curve of cinema tickets
I. shifts to the right	movement along
II. movement along	shifts to the left
III. shifts to the left	shifts to the left
IV. <u>shifts to the left</u>	**<u>movement along</u>**
V. shifts to the right	shifts to the right

39. Goose meat and chicken meat are substitutes. Goose meat and goose feathers for pillows are in joint supply. Other things being equal, what will be the effects of a fall in the price of chicken meat?

	Price of goose meat	Price of goose feathers
I. A	fall	fall
II. B	rise	fall
III. <u>C</u>	**<u>fall</u>**	**<u>rise</u>**
IV. D	rise	rise
V. E	no change	no change

40. The table shows a competitive market in equilibrium in two periods.

period	market price (cents)	quantity traded
1	50	10 000
2	60	12 000

What could explain the change from period 1 to period 2?

I. an increase in the price of a complement
II. <u>an increase in the price of a substitute</u>
III. the imposition of a minimum price of 60 cents by a government
IV. the imposition of an indirect tax on suppliers
V. None of the above

41. In response to an increase in price from Rs5 per kilo to Rs6 per kilo, a farmer increased supply from 400 kilos to 500 kilos per week. What is the price elasticity of supply at Rs. 5/-?

i. 0.8
ii. 0.9
iii. 1.0
iv. 1.2
v. <u>1.25</u>

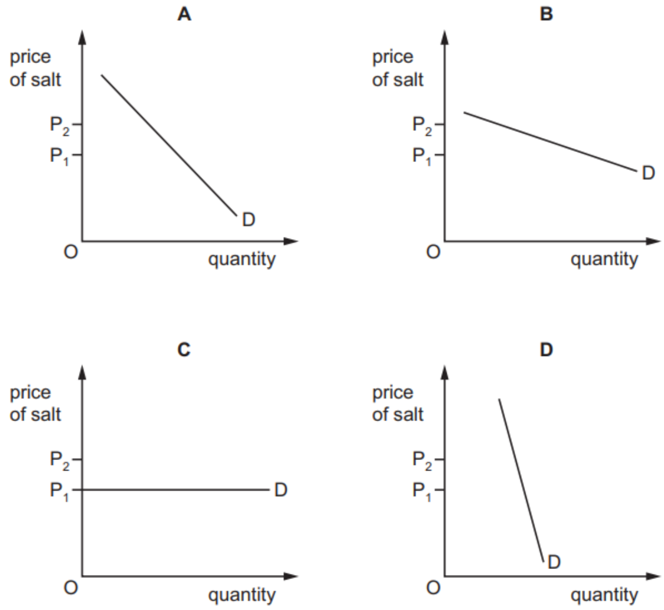
42. Assume, the price elasticity of demand for computers is -0.4. If the price is decided to be raised by 50% by the company, what would be the increase or decrease of quantity demanded?

I. Quantity demand is decreased by 25%
II. Quantity demand is increased by 10%
III. **<u>Quantity demand is decreased by 20%</u>**
IV. Quantity demand is increased by 25%

V. Quantity demand is increased by 20%

43. What would be the type of the commodity, when price demand elasticity of increasing the commodity price from Rs. 50 to Rs. 60 is 0.8
   I. **A Giffen good**
   II. An inferior good
   III. A complement good
   IV. A normal good
   V. An essential good

44. In an African country with large areas of tropical desert the price elasticity of demand for salt is highly inelastic. This will result in greater consumer expenditure on salt when price changes from P1 to P2. Which diagram illustrates this situation?



   i. A
   ii. B
   iii. C
   iv. D
   v. Relevant diagram not given

45. If a foreign tour is assumed as a luxury good, what would be the possible incidence that can be created in the equilibrium market due to increase in consumer income.
   I. Demand reduces, price increases and quantity demanded reduces.
   II. Demand increases, price increases and quantity demanded increases.
   III. Price reduces, demand reduces and quantity demanded reduces.
   IV. Demand remains constant, supply increases.
   V. Price increases, demand increases and quantity demand reduces.

46. Which one of the following is correct?
   I. An inferior goods always has positive price elasticity of demand.

II. An inferior goods always has substitutes.
III. An inferior goods always has negative cross elasticity of demand.
IV. **<u>An inferior goods always has negative income elasticity of demand</u>**.
V. An inferior goods always has positive price elasticity of demand and negative income elasticity of demand.

47. A railway company increases ticket prices by 10% for travel between 06:00 and 09:00, causing a reduction in demand by 2%. After 09:00 it reduces ticket prices by 5%, resulting in a 7% increase in demand. What is the price elasticity of demand in response to these price changes?

	between 06:00 and 09:00	after 09:00
A	elastic	elastic
B	elastic	inelastic
C	inelastic	elastic
D	inelastic	inelastic

I. A
II. B
III. <u>C</u>
IV. D
V. None of the above

48. Suppose X is an inferior good and sold in a competitive market. Assuming other things remain constant in the market for X, what are the effects of an increase in income of buyers on the demand, equilibrium price and the equilibrium quantity, in the market for X?

	Demand	**Price**	**Quantity**	**Producer revenue**
<u>I.</u>	**<u>Decreases</u>**	**<u>Decreases</u>**	**<u>Decreases</u>**	**<u>Decreases</u>**
II.	increases	increases	increases	increases
III.	Decreases	Decreases	Decreases	Increase
IV.	increases	Increases	Decreases	Cannot be determined
V.	Decreases	Decreases	Decreases	Cannot be determined

49. The table below shows the value of the price elasticity of demand facing each type of provider of passenger transport.

Airline companies	Cab Service companies	Speed Train	Bus companies	Three Wheelers
−1.0	−0.9	−1.2	−0.5	- 0.4

If the fares charged for the use of each of these forms of transport fell by the same percentage, which type of provider would see the greatest proportionate increase in total sales revenue and the greatest proportionate decrease in total sales revenue respectively?

I. Speed Train companies and Airline companies
II. Three wheelers companies and Speed Train companies

III. Bus companies and Three wheelers companies
IV. <u>Speed Train companies and Three wheeler companies</u>
V. Cannot be decided

50. Which of the following statements are correct?
A – The substitution effect of any product is negative irrespective of the price change.
B - The substitution effect of any product becomes positive when price decreases, and becomes negative when price increases.
C – If the prices of all goods change in the same proportion, the substitution effect will be zero.
D - The cross price elasticity can indicate relative competition among various goods

I. B & D only
II. A & D only
III. A, C, D, only
IV. <u>B, C, D only</u>
V. None of the above