

Lessons covered Externalities
Government Revenue & Government Expenditure
Government Budget & Government Debt

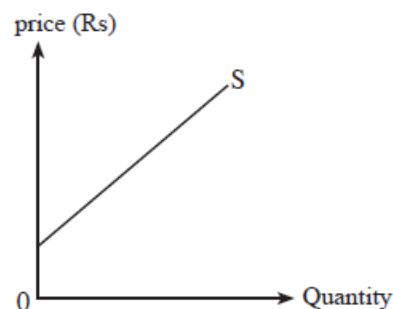
Time 2 hours

Instructions Answer all the questions.

1. Which of the following is the normative economic statement ?
 - I. Increase in VAT rates by the government accelerates inflation.
 - II. Decrease in the external value of the Rupee affects the prices of imports to rise.
 - III. Increase in salaries to government sector employees causes the Gross Domestic Product to increase.
 - IV. Minimization of subsidy expenses is unfavourable to the poor.
 - V. Increase in money supply generates a decrease in interest rates.
2. In a typical economy, within the range of the expansion from a point inside of a production possibilities frontier towards a point on it,
 - I. That economy has attained the growth targets.
 - II. The economy has expanded its production capacity.
 - III. The potential output has been increased by developing the technology.
 - IV. Output has been increased by utilizing unemployed resources of the economy.
 - V. The full employment level of output has increased on account of the increase in labour force
3. The most salient feature of a mixed economic system is,
 - I. The wide intervention by the government to economic activities.
 - II. The private sector operating with self-interest.
 - III. Making of economic decisions by a central plan.
 - IV. The intervention of the government to ensure equality.
 - V. The private sector playing a dominant role.
4. Which one of the following that compulsorily affects for the price of rice to increase?
 - I. Increase in price of fertilizer and decrease in price of bread.
 - II. Removal of the fertilizer subsidy and increase in consumer taste for rice.
 - III. Increase in the fertilizer subsidy and increase in price of bread.
 - IV. Removal of the fertilizer subsidy and decrease in consumer taste for rice.
 - V. Use of high productive fertilizer and increase in demand for string hoppers made of rice flour.

5. When the income of a person increases by 20%, the income elasticity of demand for good X is -0.6. By what amount that the demand for this product changed by this person from 1400 units as a result of this situation?
- Increase up to 1568 units.
 - Decrease up to 1388 units.
 - Increase by 168 units.
 - Decrease by 168 units.
 - Decrease by 840 units.

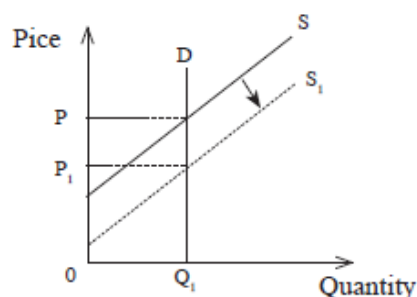
6. The following is the supply curve of a certain product.
- Which of the following is correct in explaining the nature of the change in the elasticity coefficient and the reason for that change as for the movement along the curve from the left to the right?



	The change in the elasticity coefficient	The reason for the change in elasticity
I	The value which exceeds one gradually decreases	Decrease in the reciprocal of the slope of the supply curve
II	The value which falls below one gradually increases	Decrease in the reciprocal of the slope of the supply curve
III	The value which falls below one gradually decreases	Decrease in the ratio of price to quantity supplied
IV	The value which exceeds one gradually decreases	Decrease in the ratio of price to quantity supplied
V	The value which exceeds one gradually increases	Increase in the ratio of price to quantity supplied

7. A certain product has an ordinary demand and ordinary supply and a Rs.10 unit tax was imposed on this. Which of the following can be expected after the tax?
- Decrease in consumer surplus and producer surplus.
 - Increase in consumer surplus and social welfare
 - Decrease in buyers' price and the producers' price.
 - Increase in social welfare and producer surplus.
 - Increase in buyers' price and the producers' price.

8. The following graph shows the situation of the provision of a specific unit subsidy on a unit of good.



Which of the following is correct in explaining the impacts on the consumer surplus and social welfare due to the provision of the subsidy?

	Consumer surplus	Social welfare
I	Has decreased	Has not changed
II	Has Increased	Has decreased
III	Has Increased	Has Increased
IV	Has not changed	Has decreased
V	Has Increased	Has not changed

9. The demand equation for a certain product is $Q_d = 800 - 10P$ and the supply equation is $Q_s = -100 + 1P$. The government agreed to set a guaranteed price of Rs.60 and to implement a deficiency payment system. Which of the following is correct on the government expenditure on the deficiency payment system and the increase in business total revenue?

	expenditure on the deficiency payment system	Increase in business total revenue
I	4 500	2 250
II	10 500	14 250
III	15 000	7 500
IV	15 000	14 250
V	30 000	30 00

10. A perfectly competitive firm which is producing 500 eggs per week. This output of 500 eggs per week incurs the following costs;

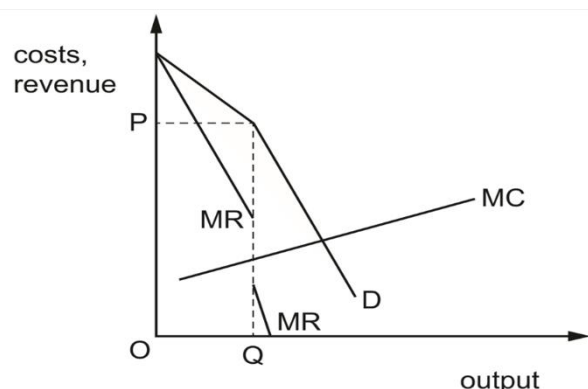
Total fixed Cost	=	Rs.	3100
Total variable Cost	=	Rs.	1400
Marginal Cost	=	Rs.	8

To this short run, what would you recommend as their best strategy of production to improve efficiency?

- I. Raise its price
- II. Increase Output
- III. Decrease output
- IV. Maintain output at its present level
- V. None of the above

11. The diagram shows a firm's cost and revenue curves. Which market structure is associated with the diagram?

- I. Monopoly
- II. Monopolistic competition
- III. Oligopoly
- IV. Perfect competition
- V. None of the above



12. The adjustment that must be made to obtain Gross National Product at market price from Net Domestic Income is,

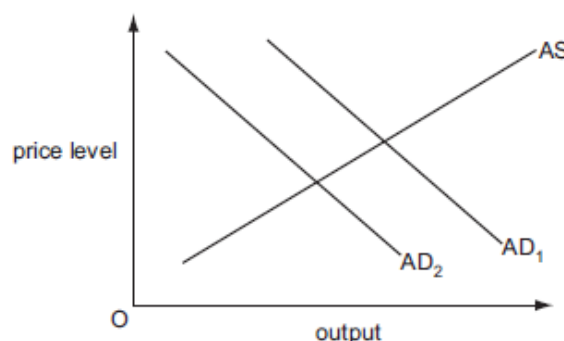
- I. + net indirect taxes + capital depreciation + Net exports
- II. – net indirect taxes + net exports + Net Foreign Factor Income
- III. – Capital depreciation – Net indirect taxes + Net exports
- IV. + Net indirect taxes + Capital depreciation + Net Foreign Factor Income
- V. – Capital depreciation + Net exports + Net Foreign Factor Income

13. The “value added” included in the accounts of the product approach is the sum of,

- I. Agricultural, industrial and services sector output values.
- II. Payments for the factors and capital depreciation.
- III. Net exports and payments for the factors
- IV. Payments for the factors and input cost
- V. Factor incomes, capital depreciation and net exports

14. AD_1 and AS are an economy's original aggregate demand and aggregate supply curves. What will cause the aggregate demand curve to shift to AD_2 ?

- I. An increase in the money supply
- II. A decrease in interest rate
- III. Decrease in marginal propensity to consumption
- IV. Increase in marginal propensity to tax
- V. Both III & IV



15. Which of the following is correct in expressing the impacts on the Gross Domestic Product and Personal Income when the government of a nation increases the current transfer expenses?

	Gross Domestic Product	Personal Income
I	Increases	Increases
II	Increases	Decreases
III	No impact	Increases
IV	No impact	Decreases
V	& Decreases	Increases

16. When there are deficits in the trade balance and service account balance of the Balance of Payments, how would that situation affect the domestic output and domestic savings?

	Domestic Product in relation to domestic expenditure	Domestic Savings in relation to gross investments
I	Is relatively smaller	Is relatively larger
II	Is relatively smaller	Is relatively smaller
III	Is relatively larger	Is relatively smaller
IV	Is relatively larger	Is relatively larger
V	Is relatively smaller	Remains unchanged

17. Liquidity preference is,

- I. The ability to convert assets to a medium exchange at a lowest cost and time.
- II. The inverse relationship between interest rates and money.
- III. Change in demand for money without having any change in interest rates.
- IV. The willingness of general public to hold money as money itself.
- V. Converting personal assets to money for the motive of transactions.

18. Which one of the following economic activity does generate primary income?
- A street vendor sells peanuts near a bus station
 - A person purchase treasury bonds
 - A person earns an interest by investing in government securities
 - A person who does honey hunting from a forest and sell that honey.
 - All of the above except II
19. Which of the following (s) is not included in the GDP since it is a 'non-observed economic activity'?
- All of the informal economic activities
 - Value generated by housewives since those are not market transactions
 - Avoiding the payment of income tax and other taxes.
 - Person who carry out their own carpentry work required for their household
 - All of the above

20. The situation that contracts the money supply of the nation is,

	Statutory reserve ratio	Bank interest rates	The central bank bonds to/ from commercial banks
I	Increase	Decrease	Sells
II	Decrease	Increase	Sells
III	Increase	Decrease	Purchases
IV	Decrease	Decrease	Purchases
V	Increase	Increase	Sells

21. Which of the following is the salient characteristic of near money ?

- Acting as a medium of exchange.
- Acting as the store of value.
- Acting as a unit of account.
- Acting as a method of making deferred payments.
- Having perfect liquidity.

22. The purchase of government treasury bills from commercial banks affects in the banking system,

- To contract money supply.
- To decrease in the credit supplying capacity.
- To increase in credit creation ability.
- To have a drop in the liquidity.
- To increase the ratio of deposits and reserves.

23. A person has deposited Rs.1000 in a bank. The bank keeps Rs.250 as the reserve out of which Rs.50 was in excess. If the banking system lends its entire excess reserve, the values of the deposit multiplier and total amount of loans created by the banking system respectively are,
- 4 and Rs.200
 - 4 and Rs.4000
 - 5 and Rs.800
 - 5 and Rs.5000
 - 5 and Rs.4000
24. If money supply equals Rs.120 million and velocity equals 10, the doubling of the money supply of this economy would affect the Gross Domestic Product at market price to,
- Increase by 50%.
 - Decrease by 50%.
 - Increase by 100%.
 - Decrease by 100%.
 - Increase by 200%.
25. The supply side factor that affects price inflation is,
- Increase in money supply
 - Increase in input prices
 - Increase in gross domestic capital formation
 - Increase in government Purchasing
 - Increase in net export
26. Assume that money supply is Rs.5000 billion, velocity of money is 10 and real national product is Rs.400 billion of an economy. What would be the price level of this Economy?
- 40
 - 50
 - 125
 - 400
 - 500
27. Which of the following answers shows the items belong to the primary reserves of commercial banks?
- Treasury bills, cash in hands, reserve with central bank.
 - Reserves with central bank, treasury bills, discounted bills
 - Cash due from foreign banks, reserves with central bank, cash in hand
 - Investments, Cash due from local banks, discounted bills.
 - Treasury bills, Investments, discounted bills
28. Suppose a person deposits Rs.16000 at a monopoly bank. If the required reserve ratio is 20%, what is the value of the maximum deposits that can be newly expanded further using this deposit?

- I. Rs.3 200
 - II. Rs.12 800
 - III. Rs.64 000
 - IV. Rs.80 000
 - V. Rs.96 000
29. Other things remain constant, a reason that can cause a reduction in the money stock is,
- I. Central Bank enters in to repurchasing agreements.
 - II. Increase in the demand for bank loans by the public.
 - III. Government borrowings from commercial banks to finance the budget deficits.
 - IV. Decrease in the velocity of money.
 - V. Decrease in the statutory reserve ratio by the Central Bank.
30. Which of the tasks is significantly used by the Central Bank of Sri Lanka to fulfill the goal of the stability of the financial system of the country?
- I. Conducting the monetary policy
 - II. Conducting the foreign exchange rate policy
 - III. Monitoring and regulating of financial institutions
 - IV. Managing official foreign exchange reserves
 - V. Managing government debt
31. The natural rate of unemployment in an economy is 5%. What will happen if a government persists in trying to achieve a target rate of unemployment of 3% by expansionary monetary policy?
- I. an accelerating rate of inflation
 - II. a diminishing rate of inflation
 - III. a high but constant rate of inflation
 - IV. a negative rate of inflation
 - V. none of the above
32. In a closed economy, the marginal propensity to save is 0.4 and the marginal propensity to pay taxes is also 0.1. These values are constant and do not vary with the level of income. What will be the increase in national income if there is an injection of 100 million into the circular flow?
- I. 1000 million
 - II. 500 million
 - III. 200 million
 - IV. 100 million
 - V. 50 million
33. Other things being equal, what is most likely to be reduced by falling labour productivity
- I. the balance of trade deficit
 - II. the internal value of money
 - III. the level of unemployment
 - IV. the rate of domestic inflation
 - V. none of the above

34. The table shows a country's consumer prices index (CPI) for March and April 2018.

	CPI
March 2018	151.3
April 2018	148.6

Which statement correctly describes what happened between these two months?

- I. There was a decrease in the annual rate of inflation.
- II. There was a decrease in real interest rates.
- III. There was an increase in the purchasing power of money.
- IV. There was an increase in the standard of living.
- V. None of the above

35. What always happens when there is an increase in the Consumer Price Index?

- I. an increase in consumer expenditure
- II. an increase in the cost of living
- III. a reduction in living standards
- IV. a reduction in real disposable income
- V. all of the above

36. The table gives data for an economy.

	2010	2011	2012	2013	2014
Gross Domestic Product (GDP) at current prices (\$ billion)	200	220	240	300	320
GDP deflator (price index)	100	109	125	149	154

In which year did real GDP decline compared with the previous year?

- I. 2010
- II. 2011
- III. 2012
- IV. 2013
- V. 2014

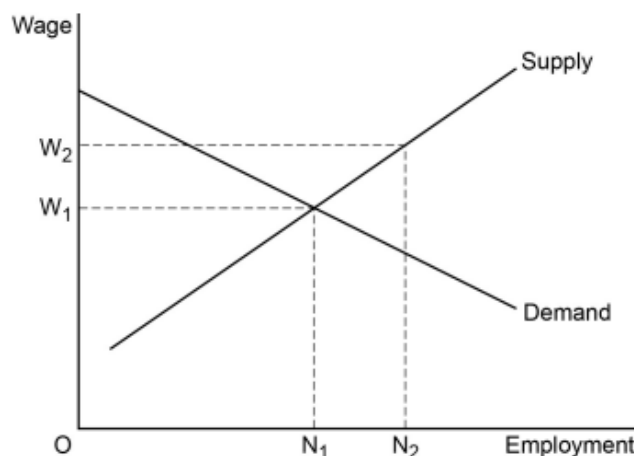
37. "When developing a price index, the chosen base year should be a normal year. "The term "normal" in this context refers to,

- I. A year where inflation was negative.
- II. A year where economic growth rate was above 5%.
- III. A year where there were no major price fluctuations.
- IV. A year where an economy achieved a higher economic growth rate.
- V. A year where prices of goods were low.

38. A Rs. 2000/- price tag on a Denim trouser in a shop window is an example of money functioning as a:
- Unit of account
 - Standard of deferred payments
 - Store of value
 - Medium of exchange
 - Store of wealth
39. If in 2020, nominal GDP is 600 and real GDP is 500, then the price index for 2020
- is 100
 - is 200
 - is 120
 - Cannot be determined because we don't know the base year
 - Cannot be determined because we don't know last year's figures
40. Which of the following is a "loser" from unexpected inflation?
- Workers in the private sector
 - People who own fixed deposits
 - The middle class
 - People who own family businesses
 - None of the above
41. If the nominal interest rate on a saving account is 2% and the inflation rate is 3% this year, the real interest rate is
- 5%
 - 2%
 - $\frac{3}{4}\%$
 - 1%
 - 3%
42. Which of the following statements is/are correct?
- A change in general price level has an indirect impact on purchasing power of money and standard of living of people.
 - At a given time prices of some goods may be increasing while the prices of some other goods might be decreasing.
 - An accurate idea about the general price level can be taken by only considering the relative prices of a basket of goods of one consumer.
 - Price indices cannot be used to identify trends in general price level.
 - All of the above
43. The table below shows indices for real GDP and consumer prices in an economy over six quarters. During these six quarters the economy experienced
- deflation and a recession.
 - disinflation when in recession.
 - disinflation when recovering from recession.
 - rising inflation when recovering from recession
 - None of the above

44. The diagram below shows the market for bricklayers

The original equilibrium wage is W_1 and the number of bricklayers employed is N_1 . Which one of the following events is most likely to increase the wage paid to bricklayers to W_2 and increase employment to N_2 ?



- I. A cut in bank rate leading to a fall in mortgage interest rates
 - II. A fall in the number of young people training as apprentice bricklayers
 - III. An improvement in working conditions in the construction industry
 - IV. An increase in the wages paid to electricians in the construction industry
 - V. None of the above
45. A bank makes a new loan to a customer. All other things being equal, which combination of events, shows what will happen?

	Bank's liabilities	Bank's assets	Money supply
I	Increase	Decrease	Rise
II	Increase	Increase	Rise
III	Decrease	Decrease	Fall
IV	Decrease	Increase	Fall
V	Decrease	Increase	Rise

46. A government issued bond has a nominal value of £100 and the annual coupon is £6. The bond has 35 years until maturity. current interest is 5%. The current market price of the bond is
- I. £100
 - II. £105
 - III. £106
 - IV. £120
 - V. £83.33

47. Which one of the following combinations, best distinguishes between the functions of the money market and the capital market?

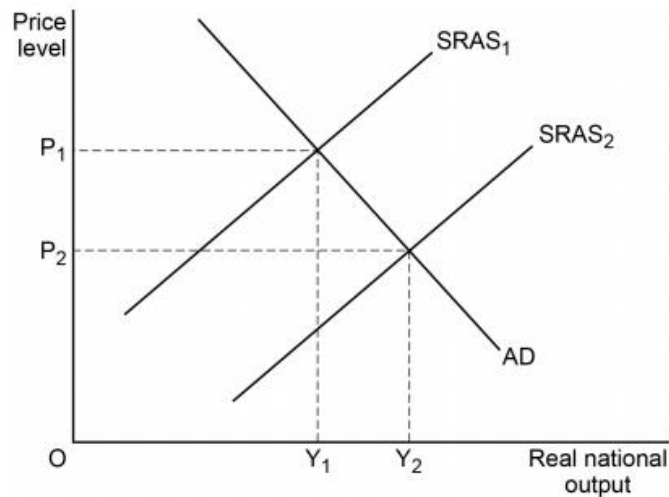
	Money market	Capital market
I	The market for issuing new shares	The market where foreign currency is exchanged at some point in the future
II	The market where commercial banks provide short-term loans to each other	The market where businesses obtain funds to finance long-term growth
III	The market where foreign currencies are traded	The main market in which commercial banks lend to each other
IV	The market where the government finances its budget deficit by issuing bonds	The market where short-term debt is converted into equity finance
V	None of the above	None of the above

48. The table below shows the Consumer Prices Index for a country over a number of years. Which one of the following can be concluded from the table?

- I. The country suffered disinflation in Year 5
- II. The inflation rate was highest in Year 7
- III. The only time the country suffered deflation was in Year 2
- IV. Real incomes fell between Year 1 and Year 7
- V. All of the above

Year	End of year prices index
1	100
2	98
3	103
4	105
5	106
6	104
7	107

49. The diagram below shows the aggregate demand (AD) and two short-run aggregate supply (SRAS) curves for an economy.



All other things being equal, which one of the following is most likely to cause the short-run aggregate supply curve to shift from SRAS₁ to SRAS₂?

- I. A fall in the size of the labour force
- II. An increase in imports
- III. An increase in the value of the multiplier
- IV. Lower world commodity prices
- V. All of the above

50. Which of the following explains how and why a central bank carries out the policy of quantitative easing?

- I. Purchases financial assets to prevent inflation falling below target
- II. Purchases financial assets to prevent inflation rising above target
- III. Sells financial assets to prevent inflation falling below target
- IV. Sells financial assets to prevent inflation rising above target
- V. All of the above