

Time

2 hours

Instructions

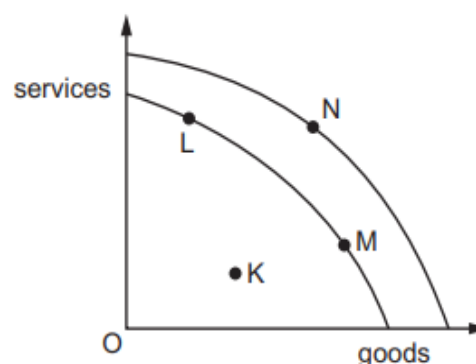
Answer all the questions.

1. An American family is choosing between four holiday destinations in Europe, each at the same price. The table shows the family's order of preference for these holiday destinations. If the family goes to Barcelona, what is the opportunity cost of this choice?

holiday destination	order of preference
Barcelona	1st
London	= 3rd
Paris	2nd
Venice	= 3rd

- I. Barcelona
- II. London and Venice
- III. Paris
- IV. London, Paris and Venice
- V. Barcelona and Paris

2. 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
II	K to L	M to N	L to M	K to M
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

3. A characteristic of 'New Traditional Economy'?

- I. Production and output distribution is based on customs.
- II. Promote social equality while harnessing the benefits of market economy.
- III. While having the large amount of property ownership with public sector allowing market mechanism to allocate resources among competing needs
- IV. Economic decisions made through a cultural framework based on religion or customs.
- V. None of the above

4. 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
I.	Decreases	Decreases	Decreases	Decreases
II.	increases	increases	increases	increases
III.	Decreases	Decreases	Decreases	Increase
IV.	increases	Increases	Decreases	Cannot be determined
V.	Decreases	Decreases	Decreases	Cannot be determined

5. 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

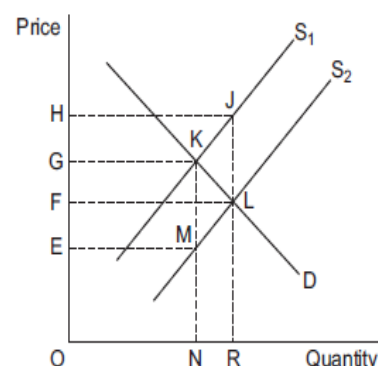
If the fares charged for the use of each of these forms of transport fell by the same percentage, which type of provider would see the greatest proportionate increase in total sales revenue and the greatest proportionate decrease in total sales revenue respectively?

- I. Speed Train companies and Airline companies
  - II. Three wheelers companies and Speed Train companies
  - III. Bus companies and Three wheelers companies
  - IV. Speed Train companies and Three wheeler companies
  - V. Cannot be decided
6. How would an economist establish the market demand curve for a private good?
- I. By adding consumer surplus to total expenditure
  - II. By combining individual demand curves horizontally
  - 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
7. A government fixes a minimum price for a service. What will be the outcome of such a policy?
- I. Demand will fall if the minimum price is below the equilibrium price.
  - II. Demand will rise if the minimum price is above the equilibrium price.
  - III. Production will fall if the minimum price is above the equilibrium price.

- IV. Production will stay the same if the minimum price is below the equilibrium price.  
V. None of the above

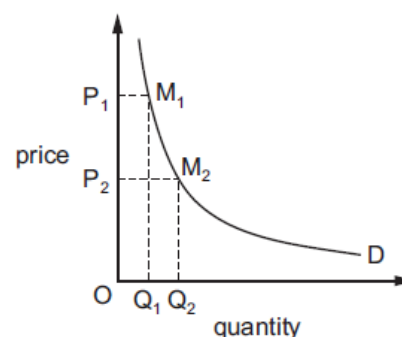
8. In the diagram below shows, the government removes a subsidy that has granted earlier to manufacturers of cement. What is the area representing the reduction of government expenditure due this action?

- I. GKON  
II. GKME  
III. FHJL  
IV. FLRO  
V. (HJRO) – (GKNO)



9. In the diagram, area  $OP_1M_1Q_1$  is equal to area  $OP_2M_2Q_2$ . What is the value of the price elasticity of demand if the price is halved from  $P_1$  to  $P_2$ ?

- I. zero  
II. +1  
III. -1  
IV. infinity  
V. Cannot be decided.



10. Even though Cinema halls screen movies on usual times, cinema attendance has decreased due to the spread of Covid 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. shifts to the left	movement along
V. shifts to the right	shifts to the right

11. The price elasticity of demand (PED) for petrol used by car drivers in an economy is estimated to be -0.2. Which one of the following is the most likely reason for the low PED?

- I. A tax on petrol  
II. Popularity of cycle lanes on many roads  
III. Few bus and rail services  
IV. Low household incomes  
V. None of the above

12. In the market for tomatoes demand curve is a linear downward sloping curve and the supply curve is a linear upward sloping curve. Which one of the following would result in a higher quantity consumed and a lower price charged for tomatoes?

- I. A hot summer causes consumers to eat more tomato salad
- II. The minimum wage for farm workers is increased
- III. A fall in the price of the fertilizer used to grow tomatoes
- IV. The price of machinery used in agriculture rises.
- V. Consumer income of tomato consumers falls result less purchase of tomato

13. At the current level of output of a perfectly competitive firm, the marginal cost is Rs.60. The average variable cost is Rs. 50. The average fixed cost is Rs.30 and the product price is Rs. 60. Which of the following statements is true for this firm?

- I. Economic profit is zero because marginal revenue equals marginal cost.
- II. Economic profit is negative because total revenue is less than total cost.
- III. Economic profit is positive because total revenue is greater than total cost.
- IV. Economic profit is positive because price is greater than average variable cost.
- V. Economic profit is zero because price equals average total cost.

14. A monopoly firm cannot decide

- I. The price of the good only
- II. The price or quantity of the good only
- III. The quantity of the good only
- IV. Both price and quantity of the good.
- V. Both production cost and quantity of the good

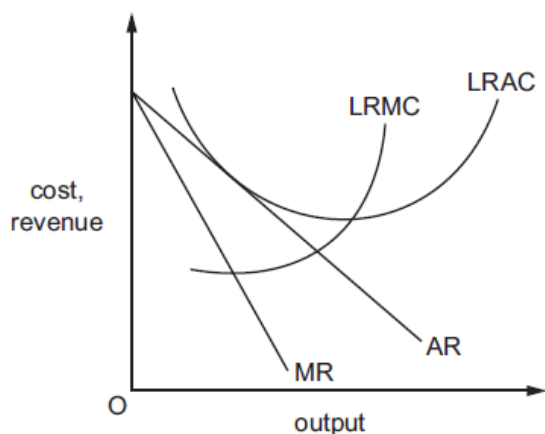
15. The table below shows the total and marginal costs of a firm.

Output (units)	ATC Cost (Rs.)	Marginal Cost (Rs.)
1	200	20
2	107.5	15
3	75	10
4	60	15
5	52	20
6	47.5	25

What is the AFC of the firm at unit 5?

- I. Rs. 20
- II. Rs. 36
- III. Rs. 180
- IV. Rs. 200
- V. Rs. 10.4

16. The diagram shows the cost and revenue curves of a monopolistically competitive firm in long-run equilibrium. Which statements correctly describe the performance of this firm?



	the firm is operating with excess capacity	the firm is fully exploiting available economies of scale
I.	no	no
II.	no	yes
III.	yes	yes
IV.	yes	no
V.	Cannot be decided	yes

17. Suppose in a given country, the general level of prices has fallen in the past year, but production of goods and services has remained constant. Based on this information. Which of the following is correct?

	Real GDP	Inflation	Nominal GDP
I.	Increased	Decreased	Increased
II.	Unchanged	Decreased	Decreased
III.	Decreased	Decreased	Decreased
IV.	Unchanged	Decreased	Increased
V.	Increased	Decreased	Decreased

18. When calculating national income by the income method, what would not be included?

- I. income from abroad
- II. profits of private sector businesses
- III. rent from the ownership of land
- IV. transfer payments
- V. Both 'I' and 'IV'

19. In a closed economy with no government sector, when will an increase in investment spending generate the largest increase in equilibrium national income?

- I. when households have a high level of autonomous consumption
  - II. when households have a high level of compulsory saving
  - III. when households have a high marginal propensity to consume
  - IV. when households have a high marginal propensity to save
  - V. when households have a high marginal propensity to tax
20. What may prevent a government achieving a faster rate of growth of real GDP?
- I. Consumption and investment expenditure are interest rate elastic.
  - II. The consumer price index is below its target set by the central bank.
  - III. The economy is operating on the long-run aggregate supply curve.
  - IV. There is a large negative output gap in the economy.
  - V. All of the above.
21. When the central bank sells government securities, it leads to
- I. An increase in reserve money (high powered money)
  - II. An increase in the money supply.
  - III. An increase in interest rates.
  - IV. Only I & II
  - V. None of the above
22. Suppose that the value of Gross Domestic Product of a particular year at constant prices is lower than that of the base year in an economy. This is due to
- I. A decrease in unemployment
  - II. An increase in output.
  - III. A decrease in general price level
  - IV. A decrease in output.
  - V. A decrease in interest rate
23. A closed economy has a banking system consisting of many banks. Banking system bank operates with a reserve ratio of 10%. Customers deposit Rs. 30,000 in cash in one of the banks. Assuming no subsequent change in notes and coins in circulation what is the maximum of loans that this bank can grant?
- I. Rs. 27,000
  - II. Rs. 30,000
  - III. Rs 300,000
  - IV. Rs. 270,000
  - V. None of the above
24. In which one of the following combinations of events is the Central Bank most likely to increase interest rates to try to reduce demand?

Money wages	Exchange rate	Consumer spending
I. Rising	Falling	Falling
II. Falling	Rising	Rising
III. Rising	Falling	Rising
IV. Falling	Rising	Falling
V. Falling	Falling	Falling

25. Suppose that the growth of nominal Gross Domestic Product is 9.5%, inflation rate is 6% and the rate of growth of population is 1% for a hypothetical economy. What is the rate of growth of Real Gross Domestic Product per head of the economy?

- I. 3.5%
- II. 2.3%
- III. 2.92%
- IV. 2.5%
- V. 2.08%

26. A closed economy has a banking system consisting of a single bank. The bank operates with a reserve ratio of 10%. Customers deposit Rs. 20,000 in cash. Assuming no subsequent change in notes and coins in circulation what is the maximum of loans that the bank can grant?

- I. Rs. 18,000
- II. Rs. 180,000
- III. Rs 200,000
- IV. Rs. 20,000
- V. Rs. 220,000

27. Which one of the following combinations of policy instruments involves only the use of expansionary monetary policy measures?

- I. Lower taxes and more government spending
- II. Lower interest rates and a budget deficit
- III. Lower bank interest rates and reverse- repurchase agreements
- IV. Higher bank interest rates and repurchase agreements
- V. Lower bank interest rates and repurchase agreements

28. The table below shows an economy's rate of inflation in each of four years.

	Year 1	Year 2	Year 3	Year 4
Inflation rate (%)	4.3	3.4	2.6	1.5

It can be concluded from the data above that, over the 4-year period,

- I. the average price level has risen
- II. the purchasing power of money has increased.
- III. assuming constant money incomes, real income has risen.
- IV. All of the above.
- V. None of the above

29. If the reserve requirement is 5%, the existence of Rs. 200 million worth of excess reserves in the banking system can lead to a maximum expansion of money supply equal to

- I. 200 million
- II. 190 million
- III. 3800 million
- IV. 4000 million
- V. 10 million

30. The following table shows the balance sheet of a commercial bank in a banking system.

Liabilities (million rupees)		Assets (million rupees)	
Deposits	3000	Cash in hand	300
		Due from Central Bank	400
		Government Securities	500
		Loans and advances	1800
Total	3000	Total	3000

If the statutory reserve requirement is 15 %, how much of additional loans can be extended

- I. None
- II. Rs. 250 million
- III. Rs. -75 million. ( minus 75 million)
- IV. Rs. 450 million.
- V. Rs. 1666 million

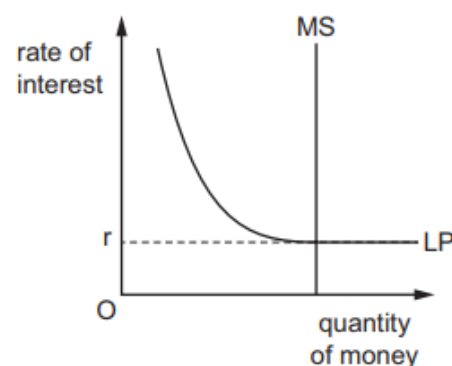


31. The speculation demand for money suggests that
- I. Individuals hold onto money for the purpose buying goods in the future.
  - II. As the rate of interest rise, the demand for money will fall.
  - III. As the rate of interest falls, the demand for money will fall.
  - IV. When the economy becomes more uncertain, people are more likely to hold onto money.
  - V. As the rate of interest rise, the supply for money will fall.
32. Which statement about a rise in the general price level in a country is correct?
- I. It is likely to create economic winners and losers in the country.
  - II. It is never acceptable to modern governments.
  - III. It means that no goods have fallen in price.
  - IV. It must make the average citizen poorer.
  - V. All except 'II'
33. Suppose the amount of reserves in the commercial banking system equals Rs. 100 billion , the amount of deposits equals Rs. 500 billion, and the amount of currency held by public equals Rs. 300 billion , Under these circumstances the money multiplier would equal
- I. 3
  - II. 5
  - III. 6
  - IV. 9
  - V. 2
34. When the Central Bank of Sri Lanka enters into a reverse repo agreement with commercial banks.
- I. Interest rates in the call money market will move downwards.
  - II. Money supply will be expanded
  - III. The deposits held by the commercial banks with the Central Bank will get affected.
  - IV. All of the above
  - V. None of the above
35. Standing deposit facility rate;
- I. Normally higher than standing lending facility rate
  - II. Upper rate of the interest rate corridor
  - III. Used in re-repo transactions of the central bank
  - IV. Increase will increase statutory reserve ratio
  - V. None of the above
36. If the statutory reserve ratio were raised,
- I. Definitely money supply would fall.
  - II. Definitely money supply would rise.
  - III. Bank could increase their demand deposit liabilities.
  - IV. Money supply falls due to the fall in credit demand.
  - V. None of the above

37. The transaction demand for money suggests that
- As the rate of interest rise, the demand for money will rise.
  - As the rate of interest falls, the demand for money will rise.
  - When the economy becomes more uncertain, people are more likely to hold onto money.
  - The velocity of money is constant.
  - None of the above
38. Deflation in the domestic economy is most likely to
- Cause consumers to delay their purchases of consumer durables.
  - Lead to a rise in interest rates for both borrowers and lenders.
  - Lead to a rise in both exports and imports.
  - Reduce the real value of any money that has been lent.
  - None of the above
39. Which one of the following would be expected to occur as the result of an open market sale of government securities by the Central Bank?
- Increase in real GDP.
  - decrease in interest rates charged on loans.
  - Increase in number of loans made by banks.
  - Increase in the money supply.
  - None of the above
40. Suppose the economy goes through a recessionary phase and the central bank want to boost aggregate demand. What would be the monetary policy tool combination that could help to accomplish the above objective?
- Reduce policy interest rates and repurchase agreements with Commercial banks.
  - Reduce bank interest and repurchase agreements with Commercial banks.
  - Increase policy interest rates and reverse repurchase agreements with Commercial banks.
  - Increase bank interest and reverse repurchase agreements with Commercial banks.
  - Reduce policy interest rates and reverse repurchase agreements with Commercial banks.
41. The central bank of a country creates cash to purchase government bonds from the commercial banks. What is this called?
- liquidity preference
  - quantitative easing
  - supply-side policy
  - the transmissions mechanism
  - None of the above
42. What is most likely to increase in the short run following a rise in an economy's rate of inflation caused by a demand-side shock?

- I. the current account deficit on the balance of payments
- II. the price of government bonds
- III. the purchasing power of the currency
- IV. the rate of unemployment
- V. All of the above

43. The diagram shows a liquidity preference curve (LP) representing the demand to hold money in relation to the rate of interest and the money supply (MS) in an economy. The market is in equilibrium at interest rate  $r$ .



If the government increases the money supply, what will be the effect on the interest rate?

- I. falls below zero
- II. falls to zero
- III. increases
- IV. no effect
- V. none of the above

44. What may lead to a reduction in bank lending in a country?

- I. an increase in commercial banks' balances with the central bank
- II. an increase in the liquidity ratios operated by the country's commercial banks
- III. an increase in the monetary base of the country
- IV. an increase in the volume of liquid assets held by the country's commercial banks
- V. all of the above

45. What would cause an increase in the transactions demand for money?

- I. a fall in the price of bonds
- II. a decrease in nominal national income
- III. an increase in the rate of interest
- IV. an increase in unemployment
- V. None of the above

46. Under which conditions will a Keynesian expansionary fiscal policy be most likely to take an economy out of a recession without too much inflation?

	demand for money	wage flexibility	aggregate supply curve
I	interest elastic	high	price elastic
II	interest inelastic	high	price inelastic
III	interest elastic	low	price elastic
IV	interest inelastic	low	price inelastic
V	interest elastic	high	price inelastic

47. A fall in domestic investment leads to an increase in unemployment. Which other problem might also be observed at the same time?

- I. an increase in interest rates on loans for house purchase
- II. an increase in the current account balance of payments deficit
- III. an increase in the government budget deficit
- IV. an increase in the rate of price inflation
- V. All of the above

48. A government finances its public sector borrowing by selling securities to the non-bank private sector. What will follow?

- I. The budget deficit will fall.
- II. The deficit on the current account will increase.
- III. The money supply will rise.
- IV. The national debt will increase.
- V. None of the above

49. According to Keynesian theory, what will cause the rate of interest to rise?

- I. a decrease in liquidity preference
- II. a decrease in the level of national income
- III. a decrease in the rate of investment
- IV. a decrease in the supply of money
- V. all of the above

50. If the statutory reserve ratio were raised,

- I. Definitely money supply would fall.
- II. Money supply falls if banking system does not hold excess reserves
- III. Definitely money supply would rise.
- IV. Bank could increase their demand deposit liabilities.
- V. Money supply falls if credit demand falls