

Time 2 hours
Instructions Answer all the questions.

1. Which of the following is correct related to economic policy analysis?
 - I. Only positive statements are used.
 - II. Only normative statements are used.
 - III. Both positive and normative statements are used.
 - IV. Neither positive nor normative statements are used in policy analysis
 - V. Positive statements are not very important in economic policy analysis.

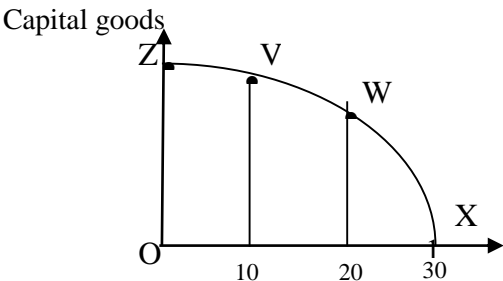
2. Which of the following statements is true?
 - I. Scarcity is a subjective concept
 - II. Scarcity is an objective concept
 - III. Shortage is a temporary issue while scarcity cannot be solved
 - IV. Both I & III
 - V. Both II & III

3. Which of the following is accurate in relation to opportunity cost?
 - I. It's a real concept
 - II. It's a relative concept
 - III. It's a financial concept
 - IV. All of the above
 - V. Both I & II

4. In which of the following situations does the opportunity cost become positive and not zero?
 - I. Use of non-scarce natural resources
 - II. Utilizing by-products of a production line
 - III. Downloading an open source software
 - IV. None of the above
 - V. Both II & III

5. Which of the following is a macro-economic variable?
 - I. Inflation
 - II. Balance of payments
 - III. Economic recession
 - IV. Unemployment
 - V. Economic expansion

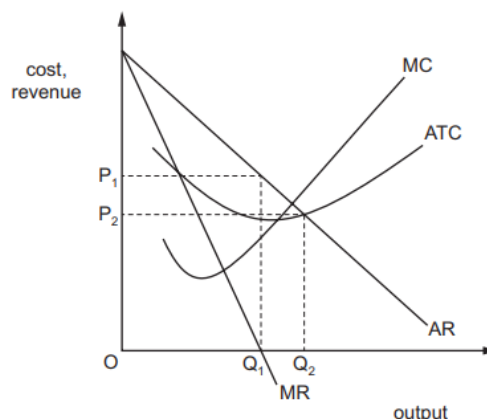
6. Out of the following factors of production, which of the following are having the feature of 'heterogeneity' in common
 - I. Land
 - II. Capital
 - III. Labour
 - IV. Both I & III
 - V. All of the above

7. Which of the following represents the importance of using circulating capital?
- Important in continuing production process without any barrier and for preparing future production plans.
 - Throughout the period, the resource owner will receive a flow of benefits.
 - Facilitate production of goods and services and the distribution process of an economy.
 - Help to improve the labour productivity, quality and quantity of production.
 - Help to produce services to fulfill basic human needs.
8. The term external stability refers to,
- Maintaining a zero trade balance in Balance of payments.
 - Maintaining a positive trade balance in Balance of payments.
 - A situation where exports are equal to imports.
 - Maintaining international trade relationships at a satisfactory level.
 - Both 1 and 3
9. The diagram shows the production possibility curve of a country, Which movement involves highest opportunity cost of producing consumer goods?
- 
- V to W
 - W to X
 - V to Z
 - W to V
 - X to W
10. Which of the following(s) would not affect the size of real GDP?
- A person who purchase daily goods requirement from his pension income
 - A company retain their profits for future reinvestment
 - A person receives his monthly pension payment
 - A person growing vegetables on his back yard for own consumption
 - All of the above except III
11. Which of the following will most likely occur during the contractionary phase of the business Cycle?
- Real GDP falls and unemployment rises
 - Real GDP falls and unemployment falls
 - Inflation falls and aggregate demand rises.
 - Inflation falls and aggregate supply falls.
 - Both II and III

12. One of the “real” flows in the circular flow model of income is
- The flow of factor services going from households to firms.
 - The flow of goods and services going from households to firms.
 - The flow of goods and services going from government to households.
 - The flow of money payments going from firms to households.
 - The flow of money payments going from households to firms.
13. Suppose the Gross Domestic product of a country is Rs. 9,600 billion, and the index of general price level stands at 150, what is the country’s Gross domestic product, valued in the prices of the base year of the price index?
- Rs. 7,500 billion
 - Rs. 6,000 billion
 - Rs. 7,000 billion
 - Rs. 5,000 billion
 - None of the above
14. A government wishes to stimulate economic recovery. Which action(s) will assist this?
- Increase government investment
 - decreasing indirect taxation
 - decreasing interest rates
 - All of the above
 - None of the above
15. When output increases in the short run, which statement is correct?
- Average fixed cost first falls and then, beyond some point, rises.
 - Average variable cost increases as soon as the law of diminishing marginal returns begins to operate.
 - The minimum point of the average total cost curve occurs at a greater level of output than the minimum point of the average variable cost curve.
 - When marginal cost reaches its minimum point, average variable cost must be greater than average fixed cost.
 - None of the above

16. The diagram shows a monopolist's cost and revenue curves

The monopolist changes its price from P_1 to P_2 and its output from Q_1 to Q_2 . Which change in objective is indicated by the move from P_1 to P_2 ?

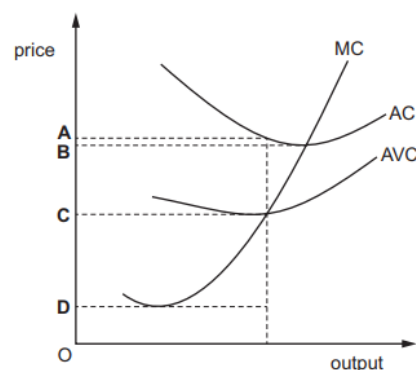


- I. profit maximization to sales revenue maximization
 - II. profit maximization to sales maximization subject to earning a normal profit
 - III. sales revenue maximization to profit maximization
 - IV. sales revenue maximization to sales maximization subject to earning a normal profit
 - V. All of the above
17. Recent research has shown that consumption of some foods might be harmful. A government committee considers how to intervene in the markets.
- Which intervention is most likely to reduce consumption of these foods without reducing income equality?
- I. a minimum price for the harmful foods
 - II. a subsidy for substitute foods
 - III. an ad valorem tax on the harmful foods
 - IV. an indirect tax on the harmful foods
 - V. all of the above
18. Why might a firm continue in production in the short run even though the price of its product has fallen below its average total costs of production?
- I. It anticipates a rise in variable costs.
 - II. It expects the fall in price to be temporary.
 - III. It has large fixed costs of production.
 - IV. It has no control over the price of its product.
 - V. All of the above
19. What is true about economies of scale but not diseconomies of scale?
- I. They occur because average revenue is increasing.
 - II. They occur because of management policy changes.
 - III. They occur in the short run.
 - IV. They occur with decreasing average cost
 - V. All of the above

20. What is most likely to be found when comparing the long-run equilibrium outcome in monopolistic competition with that in perfect competition?
- a greater degree of excess capacity in monopolistic competition
 - a higher level of profit in monopolistic competition
 - a larger number of firms in monopolistic competition
 - a more price-elastic demand curve in monopolistic competition
 - All of the above
21. In the short run, a firm produces an extra unit of output. Which of the firm's production costs will change?
- fixed cost only
 - fixed cost and variable cost
 - variable cost only
 - variable cost and total cost
 - All of the above

22. The diagram shows the cost curves of a firm operating in a perfectly competitive market. Below which price will the firm shut down in the short run?

- A
- B
- C
- D
- None of the above



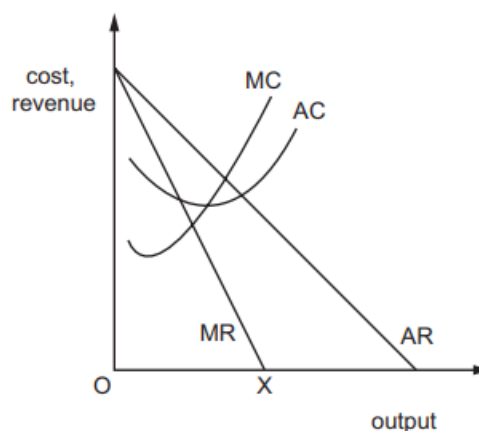
23. The table shows a firm's total and marginal costs.

What is the average fixed cost of producing 6 units?

- \$50
- \$60
- \$180
- \$300
- \$350

output	total cost (\$)	marginal cost (\$)
1	340	40
2	375	35
3	400	25
4	435	35
5	475	40

24. The diagram shows the cost and revenue curves of a monopoly.



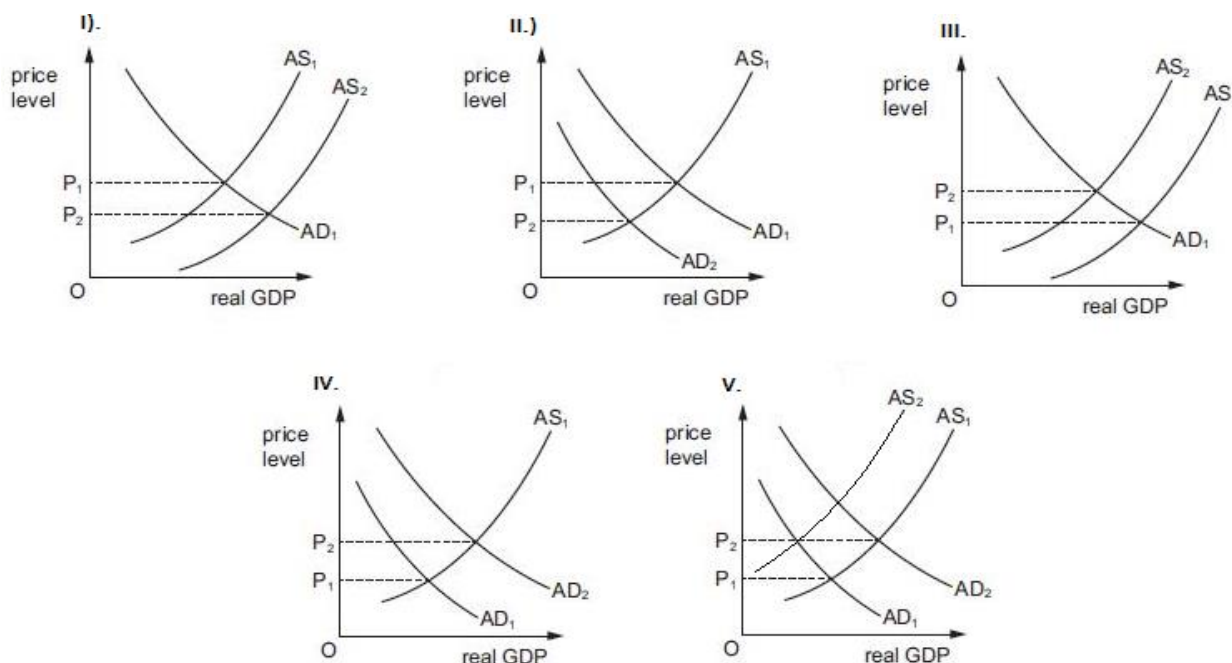
What is the firm's objective if it produces output OX?

- I. to achieve normal profit
 - II. to maximize profit
 - III. to maximize total revenue
 - IV. to minimize average cost
 - V. none of the above
25. Which policy is not designed to correct a market failure?
- I. government provision of healthcare
 - II. price controls on large firms
 - III. regulations to limit smoke pollution
 - IV. removing import quotas
 - V. none of the above
26. Which correctly identifies leakages from a country's circular flow of income?

		private sector $I > S$	government sector $G > T$	trade sector $M > X$
I.	A	no	yes	yes
II.	B	yes	no	no
III.	C	yes	yes	no
IV.	D	no	no	yes
V.	E	yes	yes	yes

27. The diagrams show a country's aggregate demand (AD1) and aggregate supply (AS1) curves.
Since the world economic downturn (2020–2021) some governments have reduced labour costs

and ensured interest rates remained unchanged. How would this most likely be shown on a diagram?



28. In a closed economy a rise in aggregate demand is needed to increase output in the country. What is necessary to achieve this increase in output in the economy?
- Enough capacity to produce the extra goods and services demanded
 - Free trade to allow imports to make up any shortages in supply
 - Government spending to be less than tax revenue
 - Reduced credit to lower inflation
 - None of the above
29. There is a depreciation in a country's exchange rate. If wage costs remain unchanged, what would be the most likely consequence?
- a fall in the rate of inflation
 - an increase in profits of manufacturing exporters
 - an increase in unemployment
 - an outflow of foreign direct investment
 - none of the above
30. Between 2019 and 2021, high street retailers reported that expenditure on home-produced and imported goods was reduced. Consumers did not take out loans as the economy was in a recession. What is the likely result of this?
- a decline in the deficit in the trade account
 - a decline in the level of savings
 - a decline in the terms of trade
 - a decline in unemployment
 - None of the above

31. How might an increase in the general price level lead to a rise in real household expenditure?

- I. by increasing the expectations of further price increases
- II. by increasing the level of real household debts
- III. by increasing the level of real wages
- IV. by increasing the spending on exports
- V. None of the above

32. The table shows the CPI rate of inflation (%) in the country from 2006 to 2013.

2006	2007	2008	2009	2010	2011	2012	2013
2.5%	4.1%	0.1%	2.7%	1.5%	3.0%	1.7%	2.0%

What can be concluded from the figures about the period 2006 to 2013?

- I. There was one year of constant prices.
- II. There were three years of deflation.
- III. There were only four years of inflation.
- IV. There were eight years of rising living costs.
- V. None of the above

33. Aggregate demand in an economy may decrease as a result of an increase in

- I. consumption expenditure.
- II. government expenditure.
- III. import expenditure.
- IV. investment expenditure.
- V. All of the above

34. In the base year, which combination of export and import price changes will have the greatest effect on the country's terms of trade?

	export prices	import prices
I	decrease by 1%	increase by 1%
II	decrease by 2%	no change
III	increase by 1%	decrease by 1%
IV	no change	increase by 2%
V	decrease by 1%	no change

35. Country M specialises in the production of cars while country N specialises in the production of televisions. They then trade with each other

What is most likely to reduce the level of specialisation and trade?

- I. There is rising productivity in the production of cars in M and televisions in N.
- II. There is a change from fixed to floating exchange rates between M and N.
- III. There is a decrease in the costs of transporting cars and televisions between M and N.
- IV. There is an increase in the mobility of factors of production within M and within N.
- V. None of the above

36. Which statement about costs is correct?

- I. External cost only affects consumers.
- II. Opportunity cost affects all transactions.
- III. Private cost only affects producers.
- IV. Social cost affects all members of society equally.
- V. None of the above

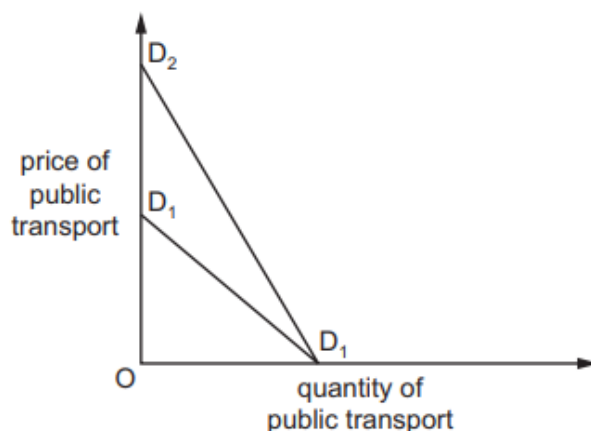
37. The table shows the price elasticity of demand for four goods and services.

	price elasticity
motorcycles	-1.6
telephone calls	-1.0
football tickets	-0.3
light bulbs	0.0

If the price of each item increased by 1%, for which items would the total expenditure increase?

- I. football tickets and light bulbs
- II. football tickets only
- III. motorcycles and telephone calls
- IV. motorcycles only
- V. none of the above

38. In the diagram, D1D1 shows an individual's initial demand curve for public transport.



- I. The costs of running the individual's car fall.
 - II. The individual is no longer able to drive.
 - III. The price of public transport falls.
 - IV. The public transport services are reduced.
 - V. All of the above
39. An appreciation of country X's currency leads to an increase in its foreign currency earnings from tourism.
- What can be concluded from this about the demand by foreigners for holidays in country X?
- I. It is income elastic.
 - II. It is price elastic.
 - III. It is income inelastic.
 - IV. It is price inelastic.
 - V. None of the above
40. When is a deficit on the current account of the balance of payments likely to worsen?
- I. when a government adopts a deflationary macroeconomic policy
 - II. when a government devalues the currency
 - III. when prices of essential imported raw materials increase significantly
 - IV. when tariffs are placed on imported products with a wide range of domestic substitutes
 - V. None of the above

Essay Paper

Select at least 01 question from 'PART A' and 'PART B' and all together attempt 03 questions.

Sub – Section A

01.

- I. 'When defining full employment of resources using all available resources to its full is not an appropriate definition' explain why term available resources' is not the most suitable term in defining full employment (03 marks)
- II. What is meant by economic freedom? Explain the concept, importance and criteria required to create economic freedom (03 Marks)
- III. What are the key categories of free goods? (03 marks)
- IV. There are 3 types of incentive systems used by alternative economic systems. What are those incentive systems and explain them? (03 Marks)
- V. 'Some of the workers in their working age decides not to seek work since they are fulltime students or housewives. Explain how does this affect to full employment of the economy. (04 Marks)
- VI. Technological knowledge can take different forms? Explain (4 marks)

02.

- I. "Change in purchasing power of consumers may result in a shift of the demand curve as well as a movement of the demand point". Do you agree with this statement and explain this statement? (4 marks)
- II. "Increase in the supply of a good may causes an increase in the quantity demand of the same good". Can this statement be true? Explain your answer using an appropriate diagram. (4 marks)
- III. Distinguish between individual demand curve and market demand curve. (2 marks)
- IV. In a particular market demand and supply equations have been given as follows:

$$Q_d = 300 - 2p$$

$$Q_s = -200 + 3p$$

- a. If government grant Rs.10/- unit subsidy, calculate consumer surplus? (02 Mark)

- b. If government grant Rs.10/- unit subsidy, calculate producer surplus? (02 Mark)
- c. If government grant Rs. 10/- unit subsidy, calculate dead weight loss? (02 Mark)
- d. If government grant Rs. 10/- unit subsidy, calculate total subsidy benefit on consumer? (02 Mark)
- e. If government grant Rs. 10/- unit subsidy, calculate total subsidy benefit on producer? (02 Mark)

3.

- I. What is meant by 'product differentiation' and what are the main ways product differentiation can be carried out in monopolistic competition? (03 Marks)
- II. How does the following affect the Short run marginal cost (MC), total fixed cost (TFC) and average total cost (ATC)? (6 marks)

	MC	TFC	ATC
a. Increase in wage rates			
b. Decrease in property taxes			
c. Increase in supply prices of new capital goods			
d. Increase in fuel prices			

- III. What are the main reasons that cause decreasing returns to scale? (03 Marks)
- IV. 'Perfect knowledge about the market is one of the main factors contributing to create a perfect competition and the absence of perfect knowledge creates market imperfections '.
 - a) What is meant by perfect knowledge? (02 Marks)
 - b) Explain how the absence of perfect knowledge makes market imperfect (02 Marks)
- V. Discuss whether there is a relationship between the marginal cost curve of the firm and the supply curve of the industry to which it belongs. (04 marks)

4.

- I. How does aggregate demand determine the level of income? (03 marks)
- II. Distinguish between "inflationary gap" and "recessionary gap" (04 marks)
- III. 'Up to a particular level of national income net exports become positive and there after net exports become negative'. Explain this idea using an appropriate diagram. (04 marks)

- IV. Why is 'investment' considered as an 'injection' whereas 'saving' is considered a 'leakage'? (03 marks)
- V. Explain the effect on Keynesian cross due to following incidences. (06 marks)
- a) Increase in general price level when money supply is constant
 - b) Increase in government purchases
 - c) Increase in indirect taxes by the government
 - d) Decrease in Marginal Propensity to Consume
 - e) Increase in interest rate
 - f) Increase in income of rest of the world

Sub – Section B

Select at least 01 question from 'PART A' and 'PART B' and all together attempt 03 questions.

05.

- I. What is bit coin? What are the unique characteristics of it? (3 marks)
- II. What are the assumptions used in the equation of exchange? What are the reasons behind those assumptions? (3 marks)
- III. "Changes in the general price level has a direct impact on the standard of living of people." Do you agree? Explain. (3 marks)
- IV. "When the policy makers are unable to identify the natural rate of unemployment accurately, it will lead to stagflation." Do you agree? Explain. (3 marks)
- V. What are the reasons for differences between interest rates? Explain. (04 Marks)
- VI. Distinguish between quantitative and qualitative credit control methods of the Central Bank of Sri Lanka. (4 marks)

06.

- I. 'Common resources are always getting over consumed'. Do you agree with this statement? Explain your answer with relevant examples. (04 marks)
- II. 'Market failure takes place due to inefficiency of resource allocation, inequality of resource allocation and macro-economic instability. Explain each of the concepts and show how market failure takes place due to each of these situations. (04 marks)
- III. 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)
- IV. Explain how tax principle of "ability to pay" and "principle of benefit" contradicts with each other? (4 marks)

07.

- I. Explain the economic factors, which might determine patterns of trade between countries. (4 marks)
- II. How would the double entry of the following transactions be recorded in balance of payment?
- a. A Malaysian investor buying shares worth of \$20 million from the Colombo Stock Exchange (01 mark)
 - b. An American tourist exchanging 600 US Dollars from BOC and obtaining an equivalent amount in Sri Lankan rupees (01 mark)
 - c. Remittances sent to parents in Sri Lanka by Sri Lankans who work in Middle East. (01 mark)
 - d. Repayment of loan installment of \$2500 million and interest payment of \$225 million, from the loan which was obtained to construct the central highway. (01 mark)
 - e. A Sri Lankan bank receiving \$120 million by selling securities in a foreign financial market. (01 mark)
 - f. Central bank of Sri Lanka obtaining a loan of \$200 million from the International Monetary Fund (01 mark)
 - g. A Sri Lankan Publishing company obtaining publishing rights by paying \$7500, to translate and publish one of the bestselling books (01 mark)
- III. Explain how a significant rise in the general price level will affect the current account of the balance of payments of an economy. (4 marks)

- IV. Draw an appropriate diagram to show the determination of the external value of Sri Lankan Rupee in terms of US dollars under a floating exchange rate system. Explain why the demand curve is downward sloping and the supply curve is upward sloping in this foreign exchange market. (03 marks)
- V. Name the 4 main components of foreign reserve assets. (2 marks)