

	Part A	Topic	Year								
			2018	2017	2016	2015	2014	2013	2012	2011	2010
MCQ	Q1	Basic Economic Concepts	6 MCQs	6 MCQs	6 MCQs	7 MCQs	6 MCQs	4 MCQs	6 MCQs	9 MCQs	5 MCQs
		Resources (Factors of production)									
		Free Goods Vs. Economic Goods									
		Problem of choice									
		Opportunity cost									
		Production possibility curves									
		Classification of economics									
		Economic Efficiency									
		Economic Systems									

Past Paper Question 2018 -2004

01. Definition of Economics (1)

1. Economics is the study of (A/L 2014)
 - I. Scarcity of resources and full employment.
 - II. Scarcity of resources and production.
 - III. Scarcity of resources and choice.
 - IV. Scarcity of resources and efficiency
 - V. Scarcity of resources and substitutability.

02. Factor of production (6)

2. Which one of the following is an example of land as a factor of production? (A/L 2018)
 - I. Magampura harbour
 - II. Southern expressway
 - III. Victoria dam
 - IV. Amuwela dairy farm
 - V. Pasikkudah beach
3. Which one of the following is not a factor of production? (A/L 2017)
 - I. Natural resources
 - II. Human resources
 - III. Capital
 - IV. Money
 - V. Entrepreneurship

4. The term “human capital” refers to (A/L 2016)
 - I. The labour resource used to make capital equipment.
 - II. Buildings and machinery.
 - III. The skill and knowledge endowment of labour force.
 - IV. Entrepreneurship and risk-taking ability.
 - V. Labour force employed in the health and education sectors.

5. Which one of the following is an example of a natural resource? (A/L 2011)
 - I. Victoria dam
 - II. Hambantota harbor
 - III. A paddy field
 - IV. A poultry farm
 - V. Dunhinda waterfall

6. Which one of the following is not an example of capital as a factor of production? (A/L 2009)
 - I. An office building
 - II. A tractor
 - III. A bank loan
 - IV. A road
 - V. An irrigation canal

7. Which of the following is a scarce resource? (A/L 2005)
 - I. Coal
 - II. Water
 - III. Skilled labour
 - IV. Time
 - V. All of the above

03. Scarcity (5)

8. The problem of scarcity (A/L 2017)
 - I. Exists only in developing economies.
 - II. Exists only in market economies.
 - III. Exists because prices of goods and services are too high.
 - IV. Exists now but will be eliminated with economic growth
 - V. Exists because of limited resources.

9. The concept of “scarcity” in economics refers to a condition where (A/L 2016)
 - I. Society is not utilizing all of its available resources in an efficient manner.
 - II. People’s wants can never be satisfied by the available resources.
 - III. Some members of each society live in poverty.
 - IV. Too many frivolous goods and services are produced at the expense of socially desirable goods and services.
 - V. Production is efficient, but distribution is inefficient.

10. Due to scarcity of resources (A/L 2012)

- I. Every society must undertake central planning
- II. The government must decide how to allocate available resources.
- III. Some members of each society must live in poverty.
- IV. Every society must choose among competing uses of available resources
- V. Resource availability exceeds the possible uses for available resources.

11. The problem of scarcity (A/L 2006)

- I. Exists only in economies which rely on a mixed economy
- II. Could be eliminated if we could force prices to fall.
- III. Means there are shortages of some goods.
- IV. Exists because human wants cannot be satisfied with available resources.
- V. Exists now but will be eliminated with economic growth.

12. Which one of the following is most likely to result from increased specialization? (A/L 2005)

- I. Lower production
- II. Higher unit costs
- III. Lower wages per worker
- IV. Higher productivity
- V. Low level of technology

04. Economic Goods (3)

13. Out of the following choose the correct answer that shows the correct features of an economic good. (A/L 2014)

- A - Existence of a production cost
- B - Existence of an opportunity cost.
- C - Consumer has to bear a cost.
- D - Existence of a decreasing marginal cost.

(1) A and B. (2) A and C (3) A, B and C. (4) A, C and D. (5) B,C and D.

14. An economic good is one which (A/L 2011)

- I. Has an opportunity cost in production.
- II. Does not use up resources.
- III. Is supplied competitively.
- IV. Makes a profit.
- V. Is available even at a Zero price.

15. What is an economic good? (A/L 2003)

- I. A good which is sold at a profit
- II. A good which is produced under conditions of increasing efficiency
- III. A good which can be supplied only by the private sector
- IV. A good which has an opportunity cost.
- V. A good which can be supplied only by the public sector.

05. Free Goods (1)

16. A free good has which one of the following characteristics? (A/L 2012)

- I. It has no opportunity cost in supply
- II. It is generally supplied by the government because its consumption is considered to be socially desirable.
- III. It has no externalities associated with its consumption or production.
- IV. It is in perfectly inelastic supply.
- V. Its production is subject to the law of diminishing returns.

06. Micro Economics (3)

17. Which of the followings a microeconomic statement? (A/L 2015)

- I. The price of rubber declined by 10% last year
- II. Unemployment was 5.8% of the labour force last year
- III. The real Gross Domestic Product increased by 7 % last year
- IV. The general price level increased by 4 % last year
- V. The tax revenue of the government decreased by 8% last year

18. Which one of the following would be a microeconomic topic? (A/L 2012)

- I. A general rise in interest rates
- II. A drop in inflation rate
- III. An increase in GDP in the united states
- IV. A drop in Sri Lanka's unemployment rate
- V. An increase in the price of milk powder

19. The branch of economics that studies the decisions of individual households and firms is called (A/L 2011)

- I. Macroeconomics
- II. Microeconomics.
- III. Positive economics
- IV. Normative economics
- V. Home economics

07. Normative Statement (3)

20. Which one of the following is a normative statement? (A/L 2013)

- I. Economists classify natural resources as renewable and non-renewable resources.
- II. The environment is an example of a scarce resource.
- III. Economics have limited means to satisfy unlimited wants.
- IV. The rate of inflation in Sri Lanka at present is single digit.
- V. An unequal distribution of income is unfair.

21. Which one of the following is a normative statement? (A/L 2011)

- I. Economists classify economic resources as land, Labour, Capital and entrepreneurship.
- II. The environment is an example of a scarce resource.

- III. If income increases sales of luxury goods will fall.
 - IV. Economies have limited resources to satisfy unlimited wants.
 - V. An unequal distribution of resources is unfair.
22. Which of the following statements is a normative statement? (A/L 2018)
- I. Increasing fuel prices will encourage the demand for electric cars.
 - II. If income increases, sales of luxury goods will fall.
 - III. As laptop prices fall, people will buy more of them.
 - IV. Government should control the rents that house-owners charge.
 - V. The quantity demanded of a good is inversely related to changes in its price.

08. Opportunity Cost (4)

23. The opportunity cost of a particular activity (A/L 2015)
- I. Is the same for everyone pursuing the activity
 - II. Includes both monetary costs and foregone income
 - III. Includes monetary cost only
 - IV. Includes foregone income only
 - V. Measures the direct benefits of that activity
24. The opportunity cost in Economics is defined as (A/L 2014)
- I. The other opportunities sacrificed for obtaining something
 - II. The financial cost of obtaining something.
 - III. The cost of time of obtaining something.
 - IV. The total fixed and variable cost of obtaining something.
 - V. The value of the best alternative sacrificed for obtaining something.
25. The opportunity cost of increasing capital investment in a fully employed economy would be (A/L 2013)
- I. A fell in consumption.
 - II. A fall in income.
 - III. A rise in saving.
 - IV. A rise in the rate of interest.
 - V. A fall in output.
26. The opportunity cost of studying at a private university is likely to include all of the following except one. Which of them is not included? (A/L 2009)
- I. The cost of required textbooks
 - II. Tuition fees
 - III. The income foregone in order to attend classes during the university sessions
 - IV. The money spent on hair cuts during the university sessions.
 - V. The cost of paper and pencils needed to take notes.

09. Production Possibility Curve (19)

27. Which of the following is always true of an economy operating on its production possibilities frontier? (A/L 2018)
- I. It must be a free market economy.
 - II. It must be a command economy
 - III. Its resources are fully employed
 - IV. It has achieved production efficiency but impossible to achieve allocative efficiency
 - V. It must have a linear production possibilities frontier.
28. On a diagram of a production possibilities frontier, opportunity cost is represented by (A/L 2018)
- I. the slope of the production possibilities frontier.
 - II. a point inside the production possibilities frontier.
 - III. a ray through the origin
 - IV. a point on the vertical axis.
 - V. a point on the horizontal axis
29. Which of the following is assumed in constructing a production possibilities curve? (A/L 2017)
- I. The economy is using its resources inefficiently.
 - II. Resources are utilized to produce only private goods.
 - III. Full employment, but not full production, is being realized.
 - IV. Production technology is fixed.
 - V. There is no inflation in the economy.
30. The production possibilities boundaries are drawn concave to the origin to reflect the (A/L 2016)
- I. Decreasing opportunity cost of producing more of either good.
 - II. Scarcity of resources in the economy.
 - III. Constant opportunity cost of producing more of either good.
 - IV. Unfair distribution of resources in the economy.
 - V. Increasing opportunity cost of producing more of either good.
31. Along a country's production possibilities frontier (A/L 2015)
- I. The level of technology is changing
 - II. More of one good can be produced without giving up producing some of the other good.
 - III. Resources are not being fully utilized
 - IV. Available resources are being fully utilized
 - V. There is productive inefficiency in the economy
32. If resources were perfectly substitutable in all economic activities, which of the following would be true? (A/L 2015)
- I. Output of all goods could be increased
 - II. The production possibilities curve would be a straight line
 - III. Specialization and mutually beneficial trade would be impossible
 - IV. No country or individual would have a comparative advantage in any activity.
 - V. Scarcity of resources would be eliminated.

33. A point inside the production possibility curve shows (A/L 2014)

- I. Unemployment.
- II. Scarcity of resources.
- III. Obsolete technology.
- IV. Over- utilization of resources.
- V. Existence of unskilled labour.

34. A production possibility curve might be shifted outward by each of the following except, (A/L 2012)

- I. Improvement in technology
- II. Movement toward more open approach to free trade
- III. Decrease in unemployment
- IV. Increase in the educational levels of general population.
- V. Improvement of productivity

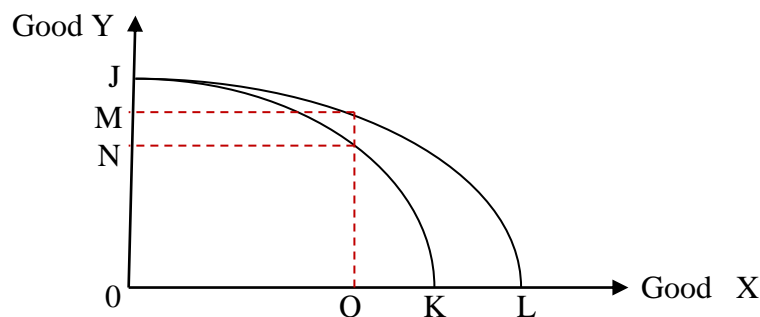
35. If resources were perfectly substitutable in all activities, which one of the following would be true? (A/L 2012)

- I. Output of all goods could be increased at zero opportunity cost.
- II. The production possibilities curve would be a straight line
- III. Specialization and mutually beneficial trade would be impossible.
- IV. No country or individual would have a comparative advantage in any activity.
- V. Scarcity of resources would be eliminated.

36. A point inside a production possibility frontier (A/L 2011)

- I. Indicates some unemployed resources.
- II. Is unattainable.
- III. Is better than points on the production possibility frontier.
- IV. Indicates fully employed resources.
- V. Illustrates the idea of opportunity cost.

37. The diagram shows production possibility curves before and after a technological advancement affecting the production of Good X. (A/L 2011)

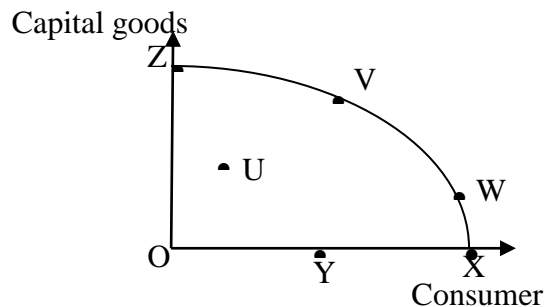


Which one of the following distance represents the reduction in the opportunity cost of producing OQ of good X in terms of good Y?

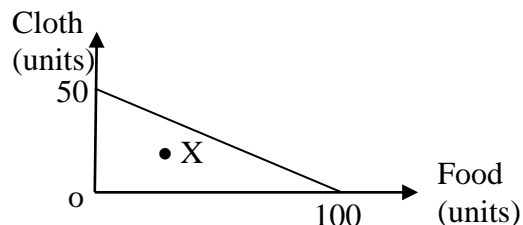
- (i) JO
- (ii) JN
- (iii) MN
- (iv) KL
- (v) QK

38. The diagram shows the production possibility curve of a country, Which movement involves no opportunity cost? (A/L 2010)

- I. Y to Z
- II. V to W
- III. W to X
- IV. X to W
- V. U to V



39. The diagram below shows the production possibility curve for a hypothetical economy. (A/L 2009)



At point X in the diagram, the opportunity cost of producing food

- I. Cannot be determined.
- II. Is infinite since it is impossible to produce more of food.
- III. Is greater than the opportunity cost of cloth.
- IV. Is less than the opportunity cost of cloth.
- V. Is zero.

40. Japan is one of the countries that have been adversely affected by current global economic recession. An immediate impact of the recession on the Japanese economy is (A/L 2009)

- I. An outward shift in its production possibility frontier.
- II. An inward shift in its production possibility frontier.
- III. A movement from a point inside the production possibility frontier to the boundary.
- IV. A movement to a point further inside of its production possibility frontier.
- V. An increase in prices of most goods because scarcity has increased.

41. The Table below shows the production possibilities of a farmer who uses all his resources to produce millet and corn, at a given time. (A/L 2008)

Millet (Bushels)	Corn (Bushels)
0	55
10	50
20	42
30	28
40	0

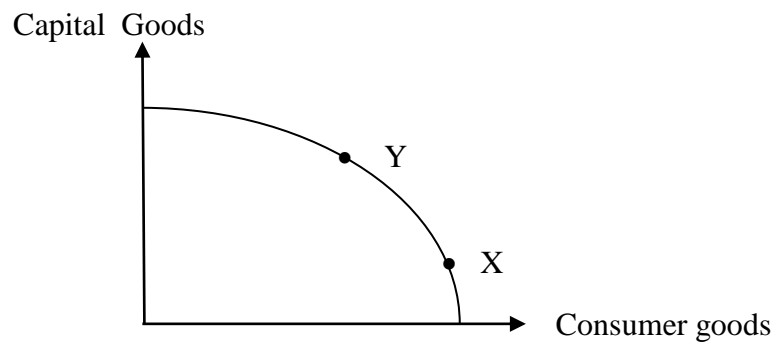
Suppose the farmer currently produces 20 bushels of millet and 42 bushels of corn. According to the above table, the opportunity cost of 10 more bushels of millet is

- I. 5 bushels of corn.

- II. 8 bushels of corn.
- III. 14 bushels of corn.
- IV. 1.4 bushels of corn.
- V. 28 bushels of corn.

42. Assume an economy producing private goods and public goods. When the economy is operating on its production possibility frontier, an increase in the production of the public goods will (A/L 2006)
- I. Have no effect on the supply of private goods.
 - II. Increase the opportunity cost of private goods.
 - III. Increase total output because public goods are non rival.
 - IV. Mean a reduction in the production of private goods.
 - V. Shift the production possibility frontier to the left.

43. The diagram below shows the production possibilities frontier of an economy. (A/L 2005)

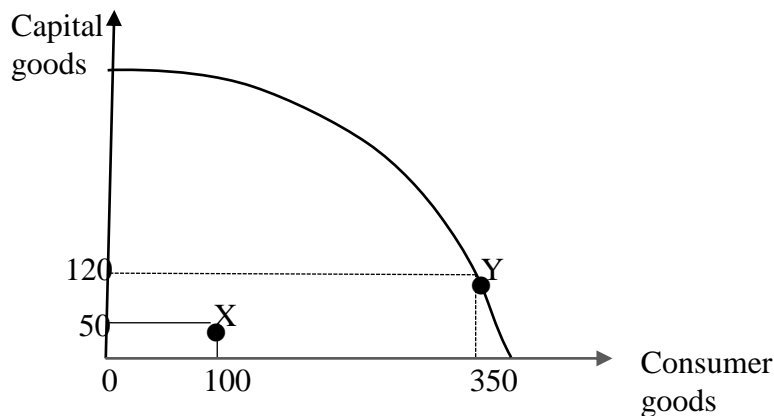


Indicate the correct combination of current and future living standards resulting from a movement from X to Y on the Curve?

	Current living standards	Future living standards
I.	Decrease	Decrease
II.	Decrease	Increase
III.	increase	Decrease
IV.	Increase	Increase
V.	increase	Remain unchanged

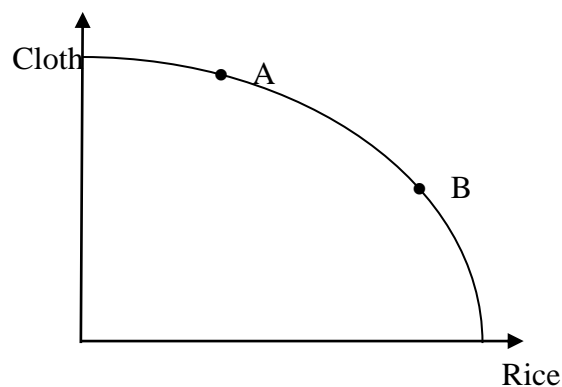
44. The following diagram represents the production possibility curve for an economy producing capital and consumer goods. (A/L 2004)

If the economy represented in the diagram shifted its level of production from point X to point Y, there would be



- I. An opportunity cost of 70 units of capital goods.
- II. An opportunity cost of 250 units of consumer goods.
- III. An increase in unemployment
- IV. No opportunity cost involved
- V. A transfer of resources from consumer goods sector to capital goods sector.

45. The following diagram shows a production possibility curve defined over cloth and rice. (A/L 2003)



If the economy changes its production from point A to B, which of the following statements about the opportunity cost of cloth and rice is correct?

- I. The opportunity cost of rice increases and the opportunity cost of cloth decreases.
- II. The opportunity cost of rice decreases and the opportunity cost of cloth increases.
- III. The opportunity costs of both rice and cloth increase.
- IV. The opportunity costs of both rice and cloth decrease.
- V. The opportunity cost of rice increases while that of cloth is left unchanged.

10. Productive efficiency (1)

46. An economy has achieved productive efficiency when. (A/L 2017)

- I. It is unable to produce more of one good without producing less of another.
- II. The marginal cost of producing each good is equal to its price.
- III. It has eliminated all negative externalities.
- IV. The resources are allocated to produce goods and services most wanted by society.
- V. It is self-sufficient in all products.

11. Allocative efficiency (1)

47. Then a firm is producing the allocative efficient level of output, (A/L 2018)

- I. total revenue is equal to total cost.
- II. marginal revenue is equal to marginal cost.
- III. marginal revenue is greater than marginal cost.
- IV. price is equal to average total cost.
- V. price is equal to marginal Cost.

48. In a competitive market with no externalities , allocative efficiency would exist if prices equal (A/L 2016)

- I. Total cost in all markets.
- II. Marginal revenue in all markets.
- III. Marginal costs in all markets.
- IV. Average variable cost in all markets.
- V. The value of marginal product.

12. Basic Economic Problems (3)

49. The fundamental economic questions of “what to produce” and “for whom to produce” are essentially interdependent because; (A/L 2017)

- I. Different patterns of income distribution generate different patterns of demand and therefore different patterns of resource allocation.
- II. Different patterns of production methods generate different patterns of income distribution.
- III. Income and wealth are concentrated in the hands of the economically powerful segments of society.
- IV. Markets cannot be relied upon to allocate resources efficiently.
- V. A particular level of output may be produced by many different combinations of inputs.

50. The fundamental economic problem faced by all countries is, (A/L 2005)

- I. Too much money chasing after few goods.
- II. Excessive use of earth’s scarce resources.
- III. Environmental pollution
- IV. Unlimited wants constrained by limited resources.
- V. Growing poverty.

51. The economic problem of “what shall be produced” in a planned economy is determined (A/L 2003)
- I. By the independent decisions of the entrepreneurs.
 - II. By joint directions of the consumers and the government.
 - III. Partly by market forces and partly by the state.
 - IV. By the directives of the government.
 - V. By the spending decisions of the consumers.

13. Market Economy (18)

52. Which of the following is necessary for a well-functioning capitalist economy, but not in a command economy? (A/L 2018)
- I. Centralized decision-making
 - II. Scarcity of resources
 - III. Monopolies
 - IV. Protection of property rights
 - V. Positive externalities
53. The main function of prices in a market economy is to (A/L 2017)
- I. Generate more profits to the entrepreneurs.
 - II. Guide households to choose investment opportunities.
 - III. Determine the elasticity of demand curves.
 - IV. Improve the distribution of income.
 - V. Allocate scarce resources among alternative uses.
54. In a free market economy, which of the following is incorrect? (A/L 2016)
- I. Price allocate resources equally among competing production sectors in the economy.
 - II. Prices indicate relative scarcities and costs, of production of goods and services.
 - III. Relative price changes are a determinant of firms’ profits and therefore encourage or discourage production.
 - IV. Price are measures of consumers’ willingness to pay for goods and services.
 - V. Prices signal to consumers how much they must sacrifice to obtain a commodity.
55. The economy based on capitalism includes all of the following characteristics except (A/L 2015)
- I. a price system based on demand and supply.
 - II. a system of private property.
 - III. self interest among households and entrepreneurs.
 - IV. freedom of enterprise.
 - V. Centralized planning.
56. The three key group of decision makers in an economic system are (A/L 2015)
- I. Households, business firms and banks
 - II. Households, business firms and government
 - III. Business firms, government and non-government organizations
 - IV. Business firms, banks and foreign traders
 - V. Households, government and banks

57. The functions of price in a market economy are, (A/L 2014)
- Rationing and functioning as a store of value.
 - Signaling , providing incentives and functioning as a measure of value,
 - Signaling , providing incentives and functioning as a store of value.
 - Providing incentives and functioning as a measure of value.
 - Signaling , providing incentives and rationing.
58. In a market economy, personal income is determined by (A/L 2014)
- Government factor price policy and subsidies.
 - Factor price in the factor market and personal income taxes.
 - Factor price in the factor market and government wage policy.
 - Factor price in the factor market and the quantity exchanged at that price.
 - Property ownership and factor price in the factor market.
59. Which of the following is a fundamental aspect of the free market system? (A/L 2012)
- A High Degree Of Government Involvement
 - Public ownership of resources
 - Private property
 - Central planners set wages and prices.
 - Employers consult government agencies for guidance in hiring workers with appropriate job skills.
60. An economic system characterized by private ownership of the factors of production, market allocation of resources and decentralized decision making is called. (A/L 2011)
- Market economy
 - Traditional economy.
 - Social market economy.
 - Command economy.
 - Centrally planned economy.
61. When the price mechanism is used to allocate resources, market prices (A/L 2011)
- Must rise.
 - Are usually regulated by the central government.
 - Are solely determined by the production costs.
 - Do not respond to the changes in demand.
 - Signal to producers the strength of demand and supply.
62. One of the main functions of prices in a market economy is to (A/L 2011)
- Allocate scarce resources.
 - Provide a mechanism for firms to make profits.
 - Improve economic stability.
 - Improve the distribution of income.
 - Determine the elasticity of demand curves.

63. With reference to the functions of the price mechanism in a free market economy, which of the following statements is true? (A/L 2010)
- I. Eliminates the surpluses of a good by allowing the market price to rise.
 - II. Ensures price stability.
 - III. The price mechanism is used by government to set up production targets.
 - IV. Falling price will encourage firms to enter a market.
 - V. The price mechanism acts as a rationing device.
64. 'Consumer sovereignty' occurs when (A/L 2010)
- I. Consumer demand determines what is to be produced.
 - II. Consumers pay less for a good than they are willing to pay.
 - III. There is no advertising in a market
 - IV. Demand equals supply
 - V. There is a choice in the market.
65. One of the main functions of the price mechanism in a free market economy is to (A/L 2008)
- I. Ensure full employment.
 - II. Ration scarce resources
 - III. Keep price stable.
 - IV. Provide public goods.
 - V. Ensure that income are evenly distributed.
66. A basic difference between a market economy and a command economy would be that (A/L 2008)
- I. Government plays no role in a market economy.
 - II. Price both ration and guide in a market economy, but are not a major guiding device in a command economy.
 - III. Consumer choice does not exist in a command economy
 - IV. Shortages of output or inputs seldom occur in command economies.
 - V. Market price exist only in command economies.
67. One of the differences between a free market economy and a centrally planned economy is that in the former, (A/L 2006)
- I. Some resources are privately owned and some are state owned.
 - II. Resources are only scarce in a free market economy.
 - III. All resources are privately owned and allocated by market forces.
 - IV. Most resources are used to produce capital goods.
 - V. Resources are allocated by the market forces and are therefore no longer scarce.
68. In a market economy, the price mechanism can achieve all the following except (A/L 2005)
- I. Signaling changes in consumer tastes.
 - II. Causing supply to respond to changes in demand.
 - III. Eliminating excess supply and excess demand.
 - IV. Ensuring the fair distribution of all types of goods.
 - V. Rationing limited resources among alternative uses.

69. Market failure is (A/L 2004)

- I. a situation where demand does not equal supply.
- II. a situation in which a market does not allocate resources efficiently
- III. caused by firms leaving an industry.
- IV. only associated with centrally planned economies
- V. the result of government setting a price above the free market equilibrium.

14. Command Economy (4)

70. The degree of government involvement in the economy is greater in (A/L 2015)

- I. a market economy.
- II. a command economy.
- III. a mixed economy.
- IV. a social economy.
- V. a traditional economy.

71. One of the important characteristics of a centrally planned economic system is (A/L 2013)

- I. The allocation of resources based on relative prices.
- II. The private ownership of resources which is fundamental to economic growth.
- III. The decisions taken by government planners regarding how best to produce goods and services in the economy?
- IV. The achievement of economic efficiency superior to the market economic system.
- V. The very unequal distribution of income and wealth.

72. The degree of government involvement in the economy is greatest in (A/L 2009)

- I. A command economy.
- II. A mixed economy.
- III. A market economy.
- IV. A traditional economy.
- V. A social market economy.

73. In a planned economy , the question of “ For whom to produce”? is determined primarily by, (A/L 2006)

- I. The sale of resources for income payments in competitive markets
- II. The distribution of production to members of the community based on social customs.
- III. Government distributing goods and services to low- income earners.
- IV. Government centrally setting wages and prices as part of an economic plan.
- V. The bargaining process between employers and employees.

15. Mixed Economy (3)

74. The three groups of decision makers in a mixed economic system are (A/L 2010)

- I. Households, business firms and banks.
- II. Households, business firms and government
- III. Households ,government and cooperatives.
- IV. Business firms, government and banks.
- V. Business firms, government and cooperatives.

75. One reason for the existence of mixed economies is that (A/L 2010)
- I. The free market economy does not ensure private property rights.
 - II. The profit motive is always undesirable.
 - III. Competition between firms ensures consumer welfare is maximized.
 - IV. The free market economy may lead to market failure.
 - V. The free market economy always allocates resources efficiently.
76. A mixed economy may be defined as one in which resources are (A/L 2004)
- I. allocated to meet the needs of both consumers and producers
 - II. used partly for the production of consume goods and partly for the production of capital goods
 - III. allocated partly by market forces and partly by the state
 - IV. allocated purely by the spending decisions of entrepreneurs.
 - V. allocated purely by the spending decisions of consumers.

16. Transitional Economy (1)

77. The term “transition economy” is used to describe a country that is (A/L 2013)
- I. Adopting capital intensive methods in place of labour-intensive methods.
 - II. Moving from central planning towards the market system.
 - III. Moving from a low-income category to a middle-income category.
 - IV. Replacing a trade deficit with a trade surplus.
 - V. Moving from a traditional economy towards central planning economy.

17. Potential Output (1)

78. Potential output is (A/L 2016)
- I. The maximum GDP that an economy actually achieved during the last ten years.
 - II. Achieved during periods when all of the labour force is employed in tradable goods producing sector.
 - III. A goal that can never be achieved by the economy using all its resources most efficiently.
 - IV. The GDP that could be produced when the economy’s resources were fully employed at a normal intensity of utilization.
 - V. The GDP that could be produced when the economy’s resources were fully employed at a maximum intensity of utilization.

PAST PAPERS

QUESTION NUMBER	ANSWER	QUESTION NUMBER	ANSWER	QUESTION NUMBER	ANSWER	QUESTION NUMBER	ANSWER
1		21		41		61	
2		22		42		62	
3		23		43		63	
4		24		44		64	
5		25		45		65	
6		26		46		66	
7		27		47		67	
8		28		48		68	
9		29		49		69	
10		30		50		70	
11		31		51		71	
12		32		52		72	
13		33		53		73	
14		34		54		74	
15		35		55		75	
16		36		56		76	
17		37		57		77	
18		38		58		78	
19		39		59			
20		40		60			

MOCK QUESTIONS

QUESTION NUMBER	ANSWER	QUESTION NUMBER	ANSWER	QUESTION NUMBER	ANSWER	QUESTION NUMBER	ANSWER
1		7		13		19	
2		8		14		20	
3		9		15		21	
4		10		16		22	
5		11		17		23	
6		12		18		24	

MOCK Questions

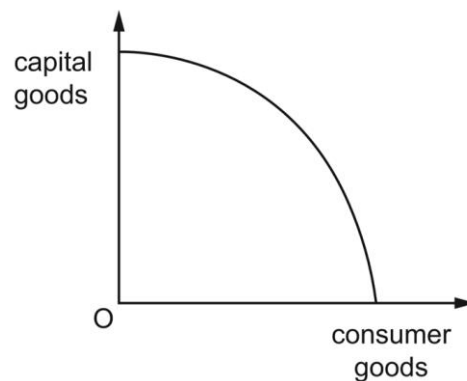
1. Which statement about economics is not correct?
 - I. Economic actions can produce unexpected side effects.
 - II. Economic thinking is usually based on logical reasoning at the margin.
 - III. The use of scarce resources to produce a good always has a cost.
 - IV. The value of a good or service involves a purely objective judgement.
 - V. None of the above

2. A farmer is able to grow three crops, X, Y and Z, on his land. The farmer decides to grow at most two crops in any year. The table shows six possible combinations of units of output of the three crops.

	Output					
X	0	0	80	40	40	0
Y	0	60	0	30	0	30
Z	40	0	0	0	20	20

What is the opportunity cost of 1 unit of X?

- I. 1.33 units of Y
 - II. 0.75 units of Y
 - III. 0.5 units of Z
 - IV. 2.0 units of Z
 - V. Both II and IV
-
3. The diagram shows a production possibility curve for an economy that produces capital goods and consumer goods.



Why is the production possibility curve drawn concave to the origin?

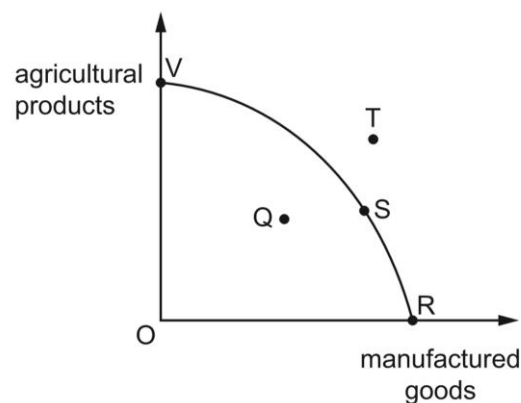
- I. Capital goods are a more labour intensive output than consumer goods.
 - II. Consumers always seek to maximise their satisfaction from consumption.
 - III. Profit maximisation for firms always ensures efficiency in production.
 - IV. Some resources are more efficient in production of some goods than others.
 - V. None of the above
-
4. What would be an opportunity cost of growth in an economy?
 - I. the faster growth of services than of manufacturing
 - II. the need for an increased level of imported raw materials

- III. the need for greater government intervention
 - IV. the reduction of consumption if growth requires investment
 - V. None of the above
5. A1..... economic statement is an objective statement that2.....be tested using factual evidence, whereas a3..... economic statement is a subjective statement that4..... be tested using factual evidence.

Which words complete gaps 1, 2, 3 and 4?

	1	2	3	4
A	Normative	Can	Positive	Can not
B	Normative	Can not	Positive	Can
C	Positive	Can	Normative	Can not
D	Positive	Can not	Normative	Can

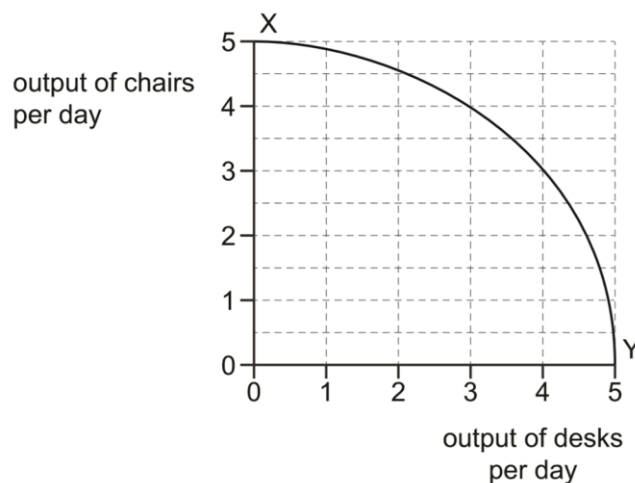
6. What would most likely be considered an advantage by producers and a disadvantage by consumers of the operation of a planned economy?
- I. a bureaucratic system of decision-making
 - II. a government emphasis on the production of capital goods
 - III. a long response time to changing economic events
 - IV. an absence of financial incentives to work and to produce
 - V. None of the above
7. A country can produce manufactured goods and agricultural products as shown in the diagram.



Given this information, which statement is definitely correct?

- I. If the country produces at Q it has unused or inefficiently used resources.
 - II. The country should produce at T instead of at Q.
 - III. The country would be better off producing at R than S.
 - IV. The monetary costs are the same to produce at V as they are to produce at R.
 - V. None of the above
8. The statements refer to the proposal to build another runway at London's Heathrow airport. Which statement is normative?
- I. Heathrow is the UK's busiest airport and has more flights than any other European airport.

- II. The airport is highly competitive but there is spare capacity.
 III. The potential net benefit of expansion is around £5 billion over 70 years.
 IV. We should concentrate on improving the use of existing capacity not build another runway.
 V. Both II and IV
9. In a hypothetical economy named TinTin's production possibility curve (PPC) is a straight-line and produce Good X and Good Y.
 The equation of the curve is $Y = 1000 - 2X$.
- What is the opportunity cost of producing one extra unit of good X?
- I. 0.5 unit of good Y
 II. 2 units of good Y
 III. 500 units of good Y
 IV. 1000 units of good Y
 V. None of the above.
10. XY is the production possibility curve (PPC) of a firm that produces desks and chairs.



What are the opportunity costs of the 4th and 5th desks produced by the firm?

	opportunity cost of 4th desk	opportunity cost of 5th desk
I	1 chair	3 chair
II	2 chair	5 chair
III	3 chair	0 chair
IV	4 chair	5 chair
V	5 chair	3 chair

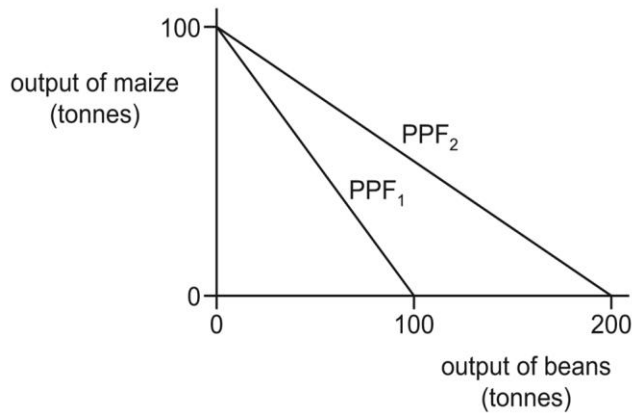
11. A government proposes to introduce a road congestion charge which would require private motorists to pay a toll for road use

Which statement relating to the proposal is normative?

- I. Bus passengers will benefit at the expense of motorists.

- II. Motorists with higher incomes will be prepared to pay the charge in return for reduced journey times.
 - III. Motorists with lower incomes will not be able to afford to use the roads.
 - IV. The proposal will be unfair to motorists who have no alternative means of transport
 - V. Both I and IV
12. A firm changes the type of product it produces. What might limit the firm's ability to use division of labour?
- I. The new production method is more capital intensive.
 - II. The new production method is very expensive.
 - III. The new product is made to specific customer requirements.
 - IV. The new product requires specialised labour.
 - V. None of the above
13. What is most important for the effective operation of the division of labour in a modern economy?
- I. a supply of money
 - II. finance from the government
 - III. highly qualified entrepreneurs
 - IV. integrated transport systems
 - V. All of the above
14. What must follow when scarcity exists?
- I. Consumers have to make choices.
 - II. Governments are unable to supply public goods.
 - III. Producers must be misallocating resources.
 - IV. Workers must be earning low wages.
 - V. None of the above
15. What is likely to be introduced in the market for bus travel if an economy moved from a mixed economy to a market economy?
- I. allowing companies to bid for bus routes
 - II. free bus travel for school children
 - III. maximum prices for bus travel
 - IV. subsidies to bus operators
 - V. All of the above
16. The diagram shows that the production possibility frontier of maize and beans has changed from PPF1 to PPF2.

What has happened to the opportunity cost of maize and the returns to factors producing beans?



	opportunity cost of maize	returns to factors producing beans
I	Fallen	Fallen
II	Fallen	Risen
III	Risen	Fallen
IV	Risen	Risen
V	Fallen	Remain unchanged

17. Scarcity means that goods need to be rationed between competing consumers. Which basis for rationing is the most likely to result in the most equal distribution of goods?

- I. Consumer preference
- II. Market price
- III. Political decision
- IV. Seller preference
- V. None of the above

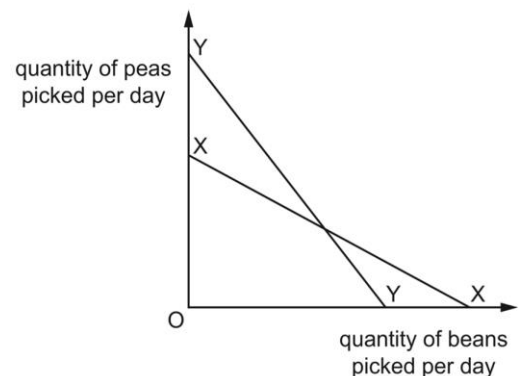
18. In which aspect is the planned economy likely to offer more than the market economy?

- I. Competition
- II. Incentive
- III. Innovation
- IV. Security
- V. None of the above

19. Line XX is the production possibility curve (PPC) of a worker picking peas and beans in a 10 hour working day.

What would cause the worker's PPC to shift to the line YY?

- I. a machine that increases the worker's pea picking productivity only
- II. a new work schedule where the worker spends 6 hours per day picking peas and only 4 hours picking beans
- III. a reduction in working hours to 8 per day and a machine that increases the worker's pea picking productivity
- IV. a reduction in working hours to 8 per day only
- V. None of the above



20. What is an example of the use of ceteris paribus?

- I. The rate of increase in wage rates equals the rate of increase in price levels.
- II. There is a constant rise in both wage rates and price levels.
- III. Wage rates and the price level remain constant at their original levels.

- IV. Wage rates rise when the only change is a rise in prices.
- V. All of the above

21. What is always true of a positive statement?

- I. It is based on statistical data.
- II. It is possible to test its validity.
- III. It is the only basis for economic policy.
- IV. It overrides any normative statement.
- V. All of the above

22. What is an accurate statement about different types of goods?

- I. Free goods are offered for sale at a loss-making price.
- II. Merit goods generate more consumer surplus than producer surplus.
- III. Private goods can be consumed with no opportunity cost.
- IV. Public goods can be used by additional consumers with no extra production cost.
- V. All of the above

23. From 1990 to 2000 each of the countries listed below changed towards a market economy through privatisation programmes

What can be concluded about the rates of privatisation?

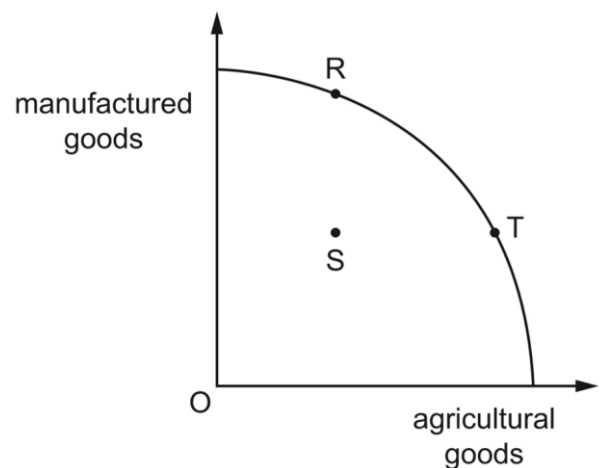
- I. Czechia initially made the fastest change.
- II. Hungary made the least overall change.
- III. Romania made the greatest overall change.
- IV. Slovakia made the steadiest change
- V. None of the above

	private sector share (% of GDP) (ratio of private enterprise earnings to GDP)		
	1990	1995	2000
Czechia	10	70	80
Hungary	20	60	80
Romania	15	45	60
Slovakia	10	60	80

24. Farmers using traditional methods lack access to finance and often employ family members on a part-time basis

If working practices in agriculture could be improved, how would this be likely to be shown on the production possibility curve?

- I. by a movement from R to T
- II. by a movement from S to R
- III. by a movement from S to T
- IV. by a movement from T to R
- V. Both I and III



	Part A	Topic	Year								
			2018	2017	2016	2015	2014	2013	2012	2011	2010
Essay	Q1	Basic economic concepts						1			
		Resources (Factors of production)	1	1	3		3	2	2		4
		Free Goods Vs. Economic Goods	1			1				1	
		Problem of choice					1				
		Opportunity cost	1			1	2		1	1	
		Production possibility curves	1	2	4	1	2	1			4
		Classification of economics									
		Productive efficiency Vs. Allocative efficiency			1				1		
		Economic Efficiency				1					
		Economic Systems	1	2	2	1	1	2	1	3	1

Past Paper Question 2018 -2004

1. Basic economic concepts

1. What conditions must be satisfied if resources are used efficiently in the economy? (4 marks) (A/L 2013)
2. What conditions must be satisfied if resources are to be used efficiently in an economy? (4 marks) (A/L 2008)
3. Distinguish between a factor market and a product market. (3 marks) (A/L 2008)
4. "If society decides to use its resources fully, then future generations will be worse off because they will not be able to use these resources due to, for example, environmental damage. "If this assertion is true, full employment of resources may not be a good thing, comment on the validity of this assertion. (5 marks) (A/L 2006)
5. Distinguish between the concepts in each of the following pairs. (A/L 2005)
 - a) Needs and wants (3 marks)

2. Problem of choice

6. Explain why societies always face the problem of choice. (4 marks) (A/L 2014)

3. Scarcity

7. “If all people would economize, the problem of scarcity would be solved.” Do you agree or disagree? Explain. (3 marks) (A/L 2008)

4. Factor of production

8. What distinguishes entrepreneurship from labour as a factor of production? (4 marks) (A/L 2018)

9. State three reasons that explain why the division of labour increases an economy’s level of production. (3 marks) (A/L 2017)

10. Why is money not considered to be a capital resource in economics? (4 marks) (A/L 2016)

11. What is an entrepreneur? Why do entrepreneurs play a key role in a market economy? (4 mark) (A/L 2016)

12. How does entrepreneurship differ from the other factors of production? (4 marks) (A/L 2014)

13. Distinguish between “capital” and “ investment” (4 marks) (A/L 2014)

14. What measures can be taken to improve productivity of human resources of a country? (4 marks) (A/L 2014)

15. What is the difference between ‘capital’ and ‘human capital’? (4 marks) (A/L 2013)

16. In what ways does money facilitate specialization and the division of labour? (4 marks) (A/L 2013)

17. What are the major functions of the entrepreneur? (4 marks) (A/L 2012)

18. Why money is not considered capital in economics? (2 marks) (A/L 2010)

19. What are the major functions of the entrepreneur? (3 marks) (A/L 2010)

20. Define the term “entrepreneurship”. (2 marks) (A/L 2008)

21. Determine which category of resources each of the following items belongs to

- a) A taxi cab
 - b) Computer software
 - c) One hour of legal counsel
 - d) A phosphate deposit
 - e) A stock of raw materials
- (5 marks) (A/L 2006)

22. What is meant by the term “division of labour?” Explain how division of labour may reduce costs of production and increase competitiveness. (8 marks) (A/L 2006)

5. Economic resources

23. What are the four categories of economic resources? Give an example of a resource for each category. (4 marks) (A/L 2016)
24. How do you define economic resources? How do you classify them? (4 marks) (A/L 2012)
25. What is meant by 'economic resources'? (2 marks) (A/L 2010)
26. What do you mean by "economic resources"? (2 marks) (A/L 2005)

6. Renewable resources Vs. Non-renewable resources

27. Distinguish between 'renewable resources' and 'non-renewable resources'. (2 marks) (A/L 2010)

7. Free Goods

28. "If you are not charged a price for the consumption of a good, that good must be a free good." Do you agree with this statement? Explain your answer. (4 marks) (A/L 2018)

8. Free goods Vs. Economic goods

29. Explain, using examples, the difference between a free good and an economic good. (4 marks) (A/L 2015)
30. Distinguish between a 'bad', 'good', an 'economic good' and a 'free good.' (4 marks) (A/L 2011)

9. Opportunity Cost

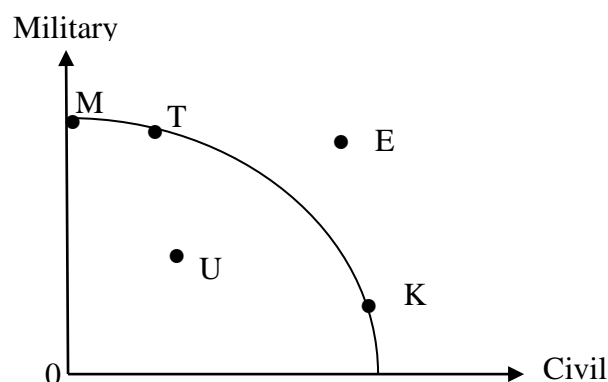
31. Explain "The Law of increasing Opportunity Cost". What causes opportunity costs to increase? (4 marks) (A/L 2018)
32. Explain the concept of opportunity cost and describe how does opportunity cost relate to the problem of scarcity? (4 marks) (A/L 2015)
33. Explain the reasons for increasing opportunity cost when resources are utilized in production. (4 marks) (A/L 2014)
34. The combinations of goods X and Y which can be produced in an economy under the given technology with the full utilization of existing resources are given in the following table. (A/L 2014)

Product Combinations	Units of X	Units of Y
A	0	150
B	20	140
C	40	125
D	60	105
E	80	70
F	100	0

- a) Calculate the opportunity costs between different product combinations (A-B, B-C, C-D, D-E AND E-F) of this economy. (2 marks)
 - b) According to the information given in the above table, will there be an opportunity cost when the economy shifts from producing 40 units of X and 60 units of Y to 60 units of X and 80 units of Y? Give reasons for your answer. (2 marks)
35. Explain the concept of opportunity cost and describe how it relates to the problem of choice between alternative uses of scarce resources. (4 marks) (A/L 2012)
36. What is meant by the 'Law of Increasing Opportunity Cost'? How do you explain the reasons for this Law? (6 marks) (A/L 2011)
37. Define the term '**opportunity cost**'. (2 marks) (A/L 2009)
38. What is the '**law of increasing opportunity cost**'? (2 marks) (A/L 2009)
39. Give reasons for the law of increasing opportunity cost. (2 marks) (A/L 2009)
40. Distinguish between the concepts in each of the following pairs. (A/L 2005)
- a) Money costs and opportunity costs (3 marks)

10. Production Possibility Curve

41. Using production possibilities curves, explain separately the impact on the economy of the rise in the unemployment rate and an increase in the working –age population. (4 marks) (A/L 2018)
42. The following diagram show is a production possibilities curve for an economy which produces only civil goods and military goods, Assume that economy is producing at point K. (A/L 2017)



- a) Does this economy's production possibilities curve exhibit increasing opportunity costs? Explain. (2 marks)
- b) If this economy were to go for a war, the most likely move would be from point K to which point? Explain. (2 marks)
- c) If the economy entered into a recession, the economy would move from point K to which point? Explain. (2 marks)

43. With the help of a production possibilities curve, explain the concept of scarcity. (4 marks) (A/L 2017)
44. What is production possibilities frontier (PPF)? List the assumptions you make when you draw a production possibilities frontier? (4 marks) (A/L 2016)
45. What causes production possibilities frontier to shift outward? (2 marks) (A/L 2016)
46. What does increasing opportunity cost mean? What are the implications of this concept for the shape of the production possibility frontier? (4 marks) (A/L 2016)
47. Draw a production possibilities frontier for a country facing increasing opportunity costs for producing paddy and textile. Show how the PPF changes given the following events. (6 marks) (A/L 2016)
- a) A new and better fertilizer is invented.
 - b) There is a surge in the quantity of labour which can be employed in both sectors.
 - c) A severe drought results in a 10% decrease in usable farmland.
 - d) A new technology is invented in the textile industry to reduce cost of production.
48. Describe, using production possibilities curves, how economies can grow faster if they are willing to cut back on current consumption. (4 marks) (A/L 2015)
49. Explain production possibility curve using a diagram. (4 marks) (A/L 2014)
50. Explain the following events by using production possibility curve diagrams. (A/L 2014)
- a) Returning of a significant number of professionals who have been in foreign countries. (2 marks)
 - b) Destruction of capital resources of a country due to a natural disaster. (2 marks)
 - c) Use of unutilized rural resources in production due to the expansion of road network. (2 marks)
 - d) A rapid expansion of the tourism industry in comparison to the garment industry. (2 marks)
51. How does the production possibility frontier help to illustrate the microeconomic and macroeconomic issues in the economy? (4 marks) (A/L 2013)
52. What are the assumptions on which the production possibilities curve is based? (3 marks) (A/L 2010)
53. What factors or events could cause an inward shift of the production possibilities curve? (3 marks) (A/L 2010)
54. Construct a production possibilities curve (PPC) for a country facing increasing opportunity costs and show how the following events can be represented in a PPC framework. (5 marks) (A/L 2010)
- a) A large number of skilled workers emigrating to other countries
 - b) A recession
 - c) A new and better fertilizer is invented
 - d) Economic growth

55. Using economic analysis examine the implications of a reallocation of resources from consumer goods to capital goods in an economy. (4 marks) (A/L 2010)
56. How does the production possibility curve reflect the law of increasing opportunity cost? (4 marks) (A/L 2009)
57. What are the assumptions for a given production possibilities curve? (2 marks) (A/L 2008)
58. Explain how production possibility curves might be used in assessing a country's economic performance. (3 marks) (A/L 2008)
59. Draw a production possibilities curve reflecting opportunity costs for an economy producing two goods, public sector goods (vertical axis) and private sector goods (horizontal axis.) The economy is currently producing at point A which is located on the mid-point of the production possibilities curve and show it on the diagram. (2 marks) (A/L 2006)
60. Mark the following points on your diagram: (A/L 2006)
- a) Point B which shows production following the election of a new government which privatizes many public sector services but maintains full and efficient employment. (1 mark)
 - b) Point C where unemployment is present in the economy. (1 mark)
 - c) Point D where the economy is in a recession. (1 mark)
 - d) Point E where the state takes over production of all goods and services in the economy. (1 mark)
61. Now draw two new production possibilities curves on the same diagram to show the following. (A/L 2006)
- a) The position after a devastating war has hit the economy. (2 mark)
 - b) There is an increase in productivity by 50% in the public sector goods and by 100 % in the private sector goods. (2 mark)
62. Assume that a country producing a combination of automobiles and computers is at a point on the production possibilities curve with increasing opportunity cost. Draw separate diagrams representing automobiles in the horizontal axis and computers in the vertical axis to show how the following events affect the production possibilities curve. Give an explanatory note on each of your diagrams. (A/L 2004)
- a) There is a substantial net out-migration of skilled computer workers. (3 marks)
 - b) There is a decrease in the productivity of computer workers, but no change in employment within either industry. (3 marks)
 - c) Technological progress causes some workers in the automobile industry to become unemployed. But this has no effect on the computer industry. (3 marks)
 - d) There is a decrease in the demand for automobiles causing unemployment in that sector but no change in the demand for computers. (3 marks)
 - e) The demand for computers increases and the demand for automobiles decreases, but there is no change in employment within either industry. (3 marks)

11. Production efficiency

63. How does the production possibilities curve illustrate production efficiency? (3 marks) (A/L 2008)

12. Productive efficiency Vs. Allocative efficiency

64. State the difference between productive efficiency and allocative efficiency of resources. (4 marks) (A/L 2016)

65. Distinguish between productive efficiency and allocative efficiency. (4 marks) (A/L 2012)

66. What are the conditions required for **production efficiency** and **allocative** efficiency? (5 marks) (A/L 2009)

13. Economic efficiency

67. Are all point along a production possibilities frontier equal in terms of economic efficiency? Explain your answer. (4 marks) (A/L 2015)

14. Basic Economic Problems

68. List the three fundamental questions any economic system must answer and outline briefly the three basic economic systems that have evolved to answer these questions. (4 marks) (A/L 2018)

69. Explain how the problem of choice of production Technology is solved in a market economy. (4 marks) (A/L 2014)

70. What are the **three** basic economic questions any economic system must address? (3 marks) (A/L 2011)

71. How different types of economic systems answer the question what goods and services will be produced? (4 marks) (A/L 2011)

15. Economic systems

72. What are the criteria to be used in the evaluation of performance of an economic system? (2 marks) (A/L 2009)

73. What are the functions of an economic system? (3 marks) (A/L 2008)

74. State the reasons for the variety of economic systems. (4 marks) (A/L 2008)

16. Market Economy

75. What function do prices serve in a market economy? (3 marks) (A/L 2017)

76. In what ways does a free market economy differ from a centrally-planned economy? (4 marks) (A/L 2016)
77. Why is private property and protection of property rights so critical to the success of the market economy? (4 marks) (A/L 2016)
78. Describe the signaling and rationing functions of market prices. (4 marks) (A/L 2013)
79. What are the **three** functions of price in a market economy? (3 marks) (A/L 2011)
80. What are the main characteristics of a market economy? (4 marks) (A/L 2009)
81. What is the role of **profit** in a market economy? (3 marks) (A/L 2009)
82. Would the market economy always be able to allocate resources efficiently? Explain your answer. (4 marks) (A/L 2009)
83. Examine whether the operation of a market economy always produces a desirable outcome. (5 marks) (A/L 2008)
84. Outline the ways in which the price mechanism allocates resources among alternative uses in a free market economy. (5 marks) (A/L 2005)
85. Examine the main shortcomings of price mechanism as a means of allocating resources. (5 marks) (A/L 2005)
86. What are the functions of price in a market economy? (3 marks) (A/L 2004)
87. What justification would you advance for government intervention in a free market economy? (4 marks) (A/L 2004)

17. Command Economy

88. State the disadvantages of a command economy. (4 marks) (A/L 2017)
89. Outline the **advantages** and **disadvantages** of a planned economy. (4 marks) (A/L 2004)

18. Market economy Vs. Command economy

90. Contrast how a market economy and a command economy try to cope with the problem of scarcity. (4 marks) (A/L 2013)
91. Outline the differences between command and market economics. (4 marks) (A/L 2012)
92. State the difference between a command economy and a market economy in the way the fundamental economic problems are answered. (6 marks) (A/L 2010)

93. Outline the nature of resource ownership in (i) a planned economy and in (ii) a market economy. (2 marks) (A/L 2006)

19. Capitalist and Socialist economies

94. Are market economies necessarily capitalist? Are command economies necessarily socialist? Explain your answer. (4 marks) (A/L 2015)

20. Mixed Economy

95. Why is the Sri Lankan economy considered to be mixed? (3 marks) (A/L 2008)
96. Outline the characteristics of a mixed economy. (3 marks) (A/L 2005)