

Time

2 hours

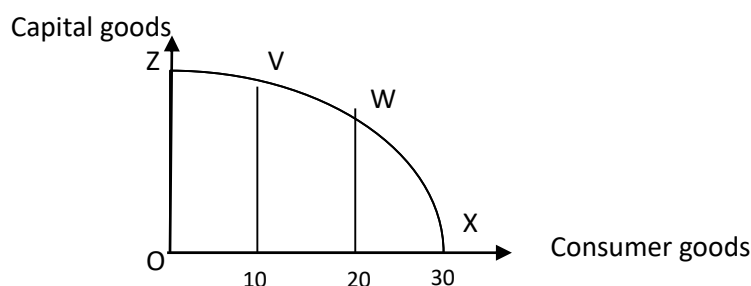
Instructions

Answer all the questions.

1. Which of the following statement/statements is/are incorrect,
 - I. The total amount of goods and services that can be produced by a society is determined by the amount of productive resources that society owns.
 - II. The amount of wants that can be fulfilled by each person and the society depends on the level of income, prices and the amount of time that can be spent on consuming them.
 - III. Scarcity is the situation where our limited wants cannot be fulfilled by unlimited resources due to inefficient use of resources.
 - IV. Scarcity is common to both rich and poor people.
 - V. None of the above

2. The diagram shows the production possibility curve of a country, Which movement involves lowest opportunity cost of producing capital goods?

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

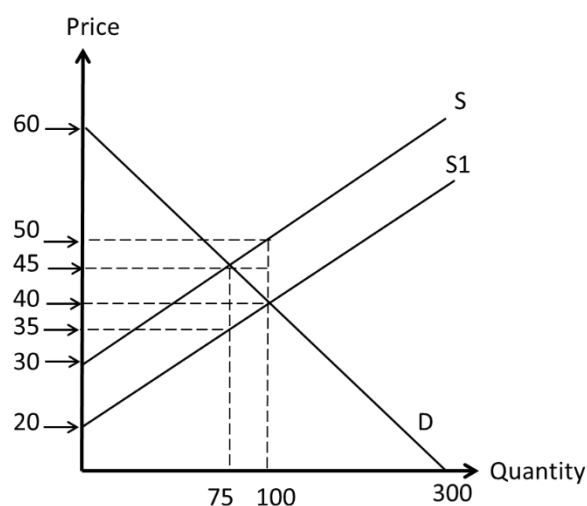


3. When the economy is operating on its production possibility frontier, an increase in the production of private goods will
 - I. have no effect on the supply of public goods.
 - II. increase the opportunity cost of public goods.
 - III. increase total output because private goods are non-rival.
 - IV. mean a reduction in the production of public goods.
 - V. None of the above.
4. Which one of the following factors is likely to cause the price of rice to increase without a shift in the demand curve?
 - I. A decrease in the productivity of paddy farmers
 - II. An increase in real income of consumers
 - III. A decrease in the wages of agricultural workers
 - IV. An increase in the fertilizer subsidy for paddy cultivation
 - V. An increase in the total population whose staple food is rice.

5. "Total expenditure on good X rises if its price rises, but decreases if income falls."
Identify the correct combination relevant to the above statement from the following.

	Price elasticity of demand for good X	Income elasticity of demand for good X
	Elastic	Negative
II.	Elastic	Positive
III.	Inelastic	Negative
IV.	Inelastic	Positive
V.	Unitary elastic	positive

6. The following diagram shows that when the government remove a specific indirect tax that had been imposed on a commodity and the change of the supply curves due the removal of the unit tax.



What will be the effect of the above action of the government?

	Change in consumer Surplus	Change in Producer Surplus	tax burden on consumer	tax burden on Producer
I.	+ 437.5	+ 437.5	+ 500	+ 500
II.	+ 562.5	+ 562.5	+ 375	+ 375
III.	+ 437.5	+ 437.5	-(375)	-(375)

IV.	- (437.5)	-(437.5)	375	375
V.	-(562.5)	-(562.5)	-(500)	-(500)

6. If the price of a particular good reduces from Rs. 75 to Rs. 60. As a result the quantity of demand on that good increased from 120 units to 165 units. If all the other things being constant, what would be the income effect and substitution effect respectively:

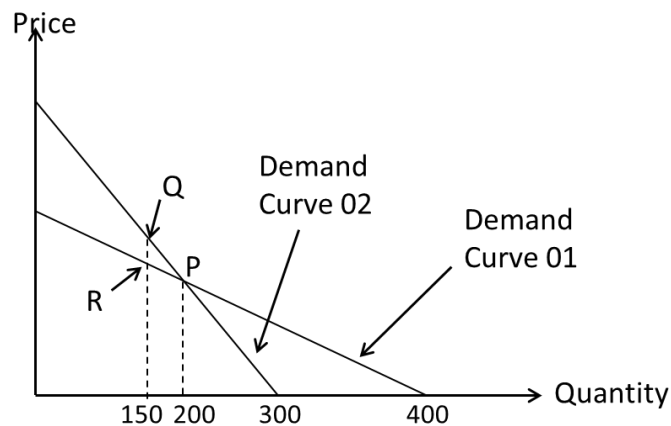
- I. 15 units and 30 units
- II. 30 units and 15 units
- III. 15 units and 45 units
- IV. 30 units and 45 units.
- V. 45 units and 15 units.

7. Following two diagrams has been developed by a researcher and arrived to 5 different conclusions. Select the statement(s) that can be concluded based on the diagram given below.



- I. Good X is a good which is in line with law of demand whereas good A is an exception to law of demand
- II. Good Y and Good X are complementary goods whereas Good A and B are substitute goods.
- III. In both Good X and Good Y income effect is positive when of the concern good falls.
- IV. All of the above can be concluded
- V. None of the above can be concluded

8. You are given some of the statements derived from the curves given bellow.



Statements

- A. Point R is relatively inelastic than point P on demand curve 01
- B. Point Q is relatively inelastic than point P on demand curve 02
- C. Elasticity is equal at the point P on demand curve 01 and point Q on demand curve 02
- D. On demand curve 01 if point moves from point R to point P producer revenue falls

Out of the above statements incorrect statement(s) would be:

- I. Statements A & C only
- II. Statement A & D only
- III. Statement A, B, D only
- IV. Statement A, C & D only
- V. Statements B, C, D only

9. Following are several demand elasticity values for margarine.

Cross price elasticity of demand + 2.3

Income elasticity of demand - 0.3

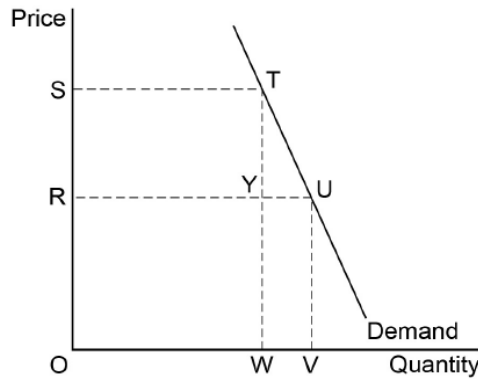
Price elasticity of demand - 1.5

As per the above information, Margarine can best be described as,

- I. A bad good with close substitutes
- II. An inferior good with close substitutes
- III. A complementary good and an inferior good
- IV. A normal good with close substitutes
- V. A complementary good and a luxury good

10. The diagram below illustrates a market in which a monopoly firm takes control and sets a price above the competitive level.

Price charged by the monopoly firm is OS. If the market had been competitive, the price would have been OR. So marketing been monopoly (rather than competitive), the amount buyers spend on the product has increased by



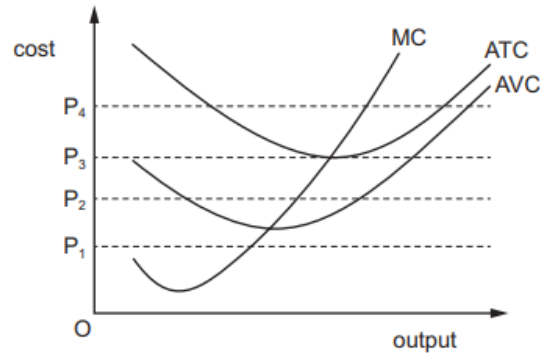
- I. RSTY.
- II. OS multiplied by OW.
- III. RSTU.
- IV. RSTY minus WYUV.
- V. RUVO minus RSTY

11. Which of the following are components of fixed cost?

- A. Amortization payments
- B. Property taxes
- C. Cost of raw material
- D. License fees Interest payments for capital injected
- E. Wages paid to workers
- F. Normal profits.

- I. A, D, E, G
- II. B, D, E
- III. A,B,D,E,G
- IV. A,B,D,E,F
- V. A, B, D,E

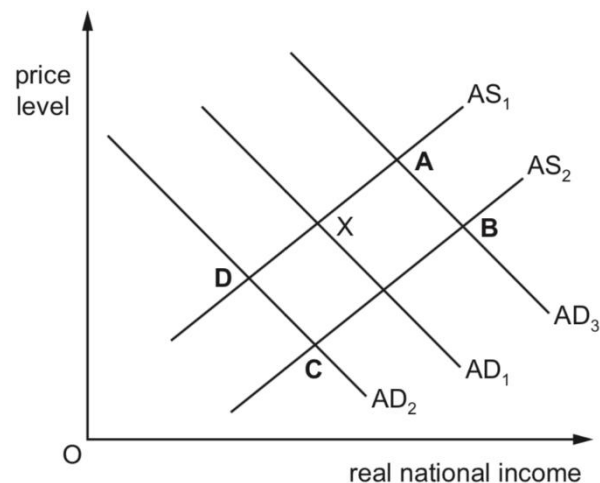
12. The diagram shows the marginal cost (MC), average variable cost (AVC) and average total cost (ATC) curves of a profit maximizing firm in a perfectly competitive market.



Which market price would mean the firm would operate in the short run but not in the long run?

- I. P1
- II. P2
- III. P3
- IV. P4
- V. P1 & P4

13. The government of a country plans to reduce income tax rates. The initial equilibrium for the country is represented by point X on the diagram. Which new equilibrium point would an economist predict as the result?



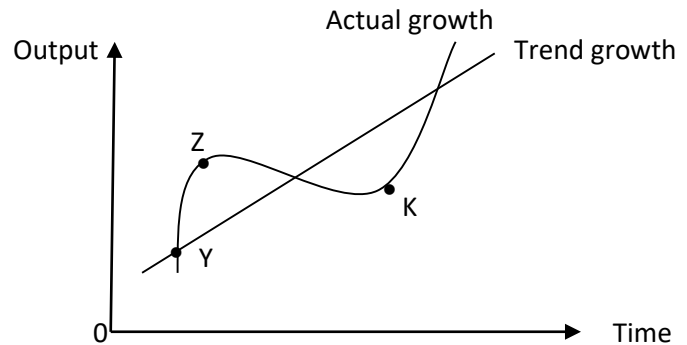
- I. A
- II. B
- III. C
- IV. D
- V. Remain at X

14. The diagram shows trend and actual growth path for an economy.

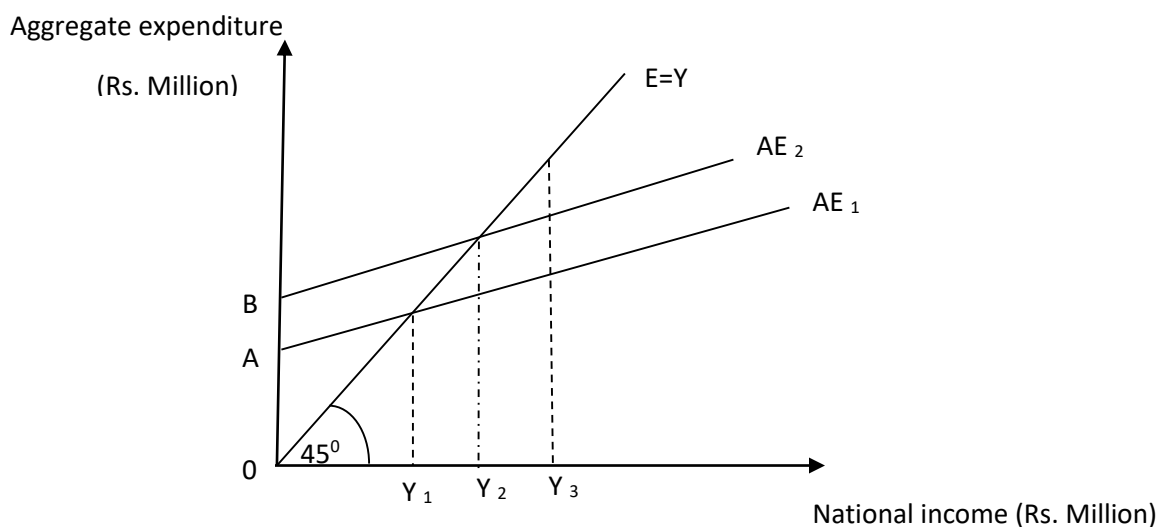
Which one of the following describes the state of the economy when it moves from point Z to point K on its actual growth path?

- I. Production possibility curve shifts to left
- II. Potential output gets reduced

- III. Economy experience a deflation
- IV. Economy will continue at full employment
- V. None of the above.



15. The diagram below displays the behavior of some macroeconomic variables in an economy.



If the national income of this economy is Y_1 and the aggregate expenditure function is AE_2 .

- I. The economy is in equilibrium.
- II. There is an unintended inventory accumulation and national income will rise.
- III. There is an unintended inventory accumulation and national income will fall.
- IV. There is an unintended inventory reduction and national income will rise.
- V. There is an unintended inventory reduction and national income will fall

16. In 2019, an economy's nominal national income grew by 12%, the price level rose by 5% and the population grew by 2%. From this information, it can be concluded that real national income per head grew by

- I. More than 7%
- II. Less than 6%
- III. Exactly 6%
- IV. Exactly 7%
- V. More than 6%

17. Suppose the Gross Domestic product of a country valued in the prices of the base year of the price index is Rs. 7,000 billion, and the index of general price level stands at 120, what is the country's Gross domestic product valued based on current year prices?

- I. Rs. 7,200 billion
- II. Rs. 8,400 billion
- III. Rs. 10,000 billion
- IV. Rs. 6,000 billion
- V. None of the above

18. An upward shift of the curve relating consumption to national income could be caused by

- I. a reduction in taxation.
- II. an increase in investment.
- III. an increase in national income.
- IV. an increase in savings.
- V. an increase in exports.

19. The residents of an economy experience a decrease in their cost of living, their living standards and their leisure time. Which combination of events could explain these changes?

		price level	real GDP	average working week
I.	A	decrease	increase	Increase
II.	B	decrease	decrease	Decrease
III.	C	increase	decrease	Increase
IV.	D	increase	increase	Decrease
V.	E	decrease	decrease	Increase

20. Smoking cigarettes generates negative consumption externalities. This means that

- I. the private benefit from smoking includes the consumption externalities.
- II. the social benefit from smoking is less than the private benefit
- III. the social benefit from smoking is negative.
- IV. the social optimum level of smoking is zero.
- V. Both II & III

21. Training provided by firms in a free market economy may be underprovided because some of the benefits from training may be captured by other firms when the workers change jobs. Which one of the following best describes this situation?

- I. A negative production externality and a missing market
- II. A negative production externality and market failure
- III. A positive production externality and a missing market
- IV. A positive production externality and market failure
- V. None of the above

22. Government failure occurs when

- I. Government intervention leads to a net welfare compared to the free market solution.
- II. Social costs in a market are greater than social benefits and government fails to act upon it.
- III. The government intervention to correct market failure makes thing worse off.
- IV. Externalities exist in a market.
- V. All of the above

23. Which one of the following expenditure item that is not classified as and 'Economic Service' in functional classification of government expenditure.

- I. Agriculture and Irrigation
- II. Energy supply
- III. Water supply
- IV. Civil security
- V. Transportation service

24. Marginal tax rate can be defined as

- I. Tax payment as a percentage of tax base
- II. Income tax percentage if the relevant tax base is income
- III. Change in tax payment as a percentage of change in tax base
- IV. All of the above
- V. Only I and II

25. A town council estimated the costs and benefits of operating a bus service in 2019 and 2020. These are shown in the table.

	2019 (Rs. 000)	2020 (Rs. 000)
private costs	4000	4400
external costs	1000	1800
private benefits	3000	4600
external benefits	2000	1600

What can be concluded from the table?

- I. Between 2015 and 2016, social costs fell and social benefits rose.
- II. Between 2015 and 2016, social costs rose and social benefits fell.
- III. In both years, positive externalities exceeded negative externalities.
- IV. In both years, social costs equaled social benefits.

- V. In both years, positive externalities were less than negative externalities.
26. Largest part of recurrent government expenditure of Sri Lanka is :
- Pension
 - Samurdhi
 - Salaries and wages
 - Interest payment
 - Transfers to Households
27. Which one of the following is most likely to be a reason for government failure?
- The negative externalities that result from the production of some goods and services
 - The positive externalities that result from the production of some goods and services
 - The difficulties in analyzing the true social costs and benefits of merit goods
 - Excessive consumption of demerit goods
 - All of the above
28. The diagram below shows the marginal private benefit and marginal social benefit (MPB and MSB) curves and the marginal private cost and marginal social cost (MPC and MSC) curves for Good X. To reduce the market equilibrium output from Q_1 to Q_2 , the government could
- Introduce a subsidy of GH.
 - Set a minimum price of OG.
 - Introduce a per unit tax of HG.
 - Set a maximum price of OH.
 - None of the above
-
29. Which of the following comes closest to being a 'regional public good'?
- National defense
 - Protect Ozone Layer
 - World peace
 - Regional agreements for resource sharing
 - Traffic lights
30. What is likely to occur when the government privatizes public sector monopolies?
- Consumer choice will increase.
 - Employment will increase in the short run.
 - Innovation will be discouraged.
 - The production of public goods will increase.
 - None of the above
31. When a proportionate income tax is in operation, the poor pay
- A smaller rupee amount of income taxes than the rich.

- II. A same rupee amount of income taxes as the rich.
- III. A higher rupee amount of income taxes as the rich.
- IV. An equal percentage of their income in taxes as the rich.
- V. Both I and IV

32. The state provides some merit goods free of charge because

- I. It is considered unacceptable that people on low incomes may be unable to afford them.
- II. The consumption of merit goods results in positive externalities.
- III. Merit goods are both non-excludable and non-rival.
- IV. all of the above
- V. Both 'I' and 'II' only.

33. Which statement about a product with external costs must be correct?

- I. The consumption of the product has positive effects on third parties.
- II. The private costs of its production exceed the social costs of its production.
- III. The social costs of its production exceed the social benefits of its production.
- IV. The production of the product has negative effects on third parties.
- V. Both III and IV

34. The table shows the results of a cost-benefit analysis undertaken by a government when it was considering investing US\$200 million in building a new airport.

	US\$ million
private benefits	230
private costs	200
external costs	50

The government will build the airport if the net social benefit creates a return of at least 10% on its investment. What will the minimum external benefit need to be in US\$ million to achieve this?

- I. 10
- II. 20
- III. 30
- IV. 40
- V. 50

35. The table below shows the marginal private & external benefits and the marginal private & external costs of a product produced at a free market equilibrium level of output.

Item	Rs. Million	Item	Rs. million
Marginal private benefit	20	Marginal private Cost	20
Marginal external benefit	10	Marginal external Cost	0

The government intervention in this market could improve the efficiency of allocation of resources by

- I. Imposing production tax on this product
- II. Providing producer subsidy on this product
- III. Imposing minimum price control on this product without intervention buying
- IV. Imposing minimum price control on this product with intervention buying
- V. By either implementing strategy II or IV

36. What is a necessary characteristic of a public good?

- I. It has a fixed maximum price.
- II. It has an opportunity cost of production of zero.
- III. It is non-excludable.
- IV. It is an essential good.
- V. Both II and III

37. Assume that the market provides a merit good without any intervention from the government. Compared with the socially efficient outcome, this means that the,

	Market price is:	Quantity produced is:
I	Too high	Too low
II	Too high	Too high
III	Too low	Too high
IV	Too low	Too low
V	Excessive	Sufficient

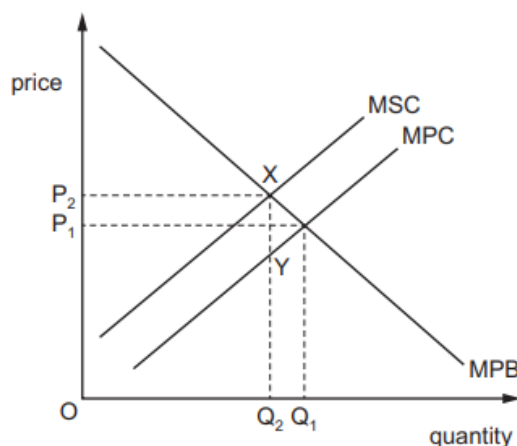
38. Government failure may result directly from

- I. The low cost of administering government policy.
- II. Under-consumption of merit goods by the public.
- III. A failure of market prices to reflect social costs.
- IV. Taking decisions based on imperfect information
- V. All of the above

39. Which of the following statement is incorrect?

- I. Tax compliance can be defined as filing compliance, reporting compliance and payment compliance
- II. Tax non-compliance leads to a tax gap
- III. Tax non-compliance occurs due to tax evasion and tax avoidance
- IV. Tax avoidance is illegal act of tax non-compliance
- V. All of the above

40. An economist undertakes a cost-benefit analysis of the pollution resulting from a manufacturing process. Which judgement is most likely to guide any recommendation about the appropriate level of manufacturing output?
- I. that the marginal social cost of manufacturing equals the marginal social benefit
 - II. that the marginal cost of pollution is zero
 - III. that the total revenue of manufacturing equals the total cost
 - IV. that the total benefit of pollution is maximized
 - V. All of the above
41. The marginal cost of allowing one more individual to use a semi-public good up to the maximum capacity limit would be:
- I. Negative
 - II. Zero.
 - III. Positive.
 - IV. Infinite
 - V. Cannot be defined.
42. In an economy with a regressive tax system, there is an increase in before – tax income. What will happen to after-tax income?
- I. It will decrease less than proportionately.
 - II. It will increase more than proportionately.
 - III. It will decrease more than proportionately.
 - IV. It will increase but cannot decide the proportion.
 - V. It will increase less than proportionately
43. What is meant by a current account deficit in a government budget?
- I. Reduction of tax revenue by tax evasion.
 - II. Increases domestic savings
 - III. Generation of negative public savings.
 - IV. It has no impact on economic growth.
 - V. Definite generation of inflationary impact
44. A chemical firm produces toxic fumes that impose costs on society. The diagram shows the free market equilibrium of the firm's product at P1Q1.



The government imposes a tax on the firm of XY . How would this improve resource allocation?

- I. It will internalize the external benefit.
- II. It will internalize the external cost.
- III. It will internalize the private benefit.
- IV. It will internalize the private cost.
- V. Both II and IV

45. When will a society have achieved an equitable distribution of income?

- I. when all individuals have equal job opportunities
- II. when all workers are paid the same wages
- III. when the incomes within the society are equally distributed
- IV. when all of the persons consume the same level of goods
- V. None of the above

46. What are the reasons which have forced markets to move away from perfectly competitive nature?

- I. Concentration of market power
- II. Factor immobility
- III. Missing markets
- IV. Non-availability of perfect information.
- V. All of the above.

47. Economic incidence of tax is:

- I. Change in real income of the parties who involved in tax
- II. Amount of tax paid directly as a result of an administrative decision.
- III. Party who is legally liable to pay the tax to government
- IV. The percentage difference distributed between legal taxpayer and the parties who bear the tax burden without being legal taxpayers.
- V. Both 'I' and 'IV'

48. Which of the following is not a way in which privatization can take place?
- I. Selling public assets to private sector.
 - II. Public Private Partnerships (PPP) in effectively providing public services
 - III. Some of the functions performed by government are delegated to private sector.
 - IV. Selling shares of public companies to private sector.
 - V. None of the above
49. Which of the following methods of financing the budget deficit can increase aggregate demand by the greatest amount?
- I. Selling bonds to foreigners
 - II. Selling bonds to the Central Bank
 - III. Selling bonds to the commercial banks
 - IV. Selling bonds to the National savings Bank
 - V. Selling bonds to the Employees Provident Fund
50. Largest part of outstanding domestic debt of Sri Lankan government has been financed through:
- I. Treasury bills
 - II. Treasury bonds
 - III. Sri Lankan Development bonds
 - IV. Central bank provincial advances
 - V. Rupee Loans