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**Second Term Examination - 2022**

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**ECONOMICS - I**

**Instructions :-**

* **Select the correct answers for questions No 1 – 50 and underline.**

01. Which of the following is assumed in constructing a production possibilities curve?

i. There is no inflation in the economy.

ii. Production technology is fixed.

iii. Resources are utilized to produce only private goods.

iv. The economy is using its resources inefficiently.

v. Full employment, but not full production, is being realized.

02. An economy has achieved productive efficiency when,

i. It is self-sufficient in all products.

ii. It is unable to produce more of one good without producing less of another.

iii. The resources are allocated to produce goods and service most wanted by society.

iv. The marginal cost of producing each good is equal to its price.

v. It has eliminated all negative externalities.

03. Which of the following is a salient feature of a command economic system?

i. Central planning. ii. Private ownership of properties.

iii. Concentration of market power. iv. Heavy reliance on markets.

v. Decision marking based on self-interest.

04. Consumer sovereignty occurs when,

i. Demand equals supply.

ii. There is a choice in the market.

iii. There is no advertising in a market.

iv. Consumers pay less for a good than they are willing to pay.

v. Consumer demand determines what is to be produced.

05. Economists refer the term “Capital” exclusively to,

i. Money used by an entrepreneur to purchase capital.

ii. Savings accumulated by households to purchase capital.

iii. Real estate, forests, metals and mineral resources.

iv. Human-made goods which are used to produce other goods and services.

v. Money used to purchase capital in the form of stocks and bonds.

06. The diagram below shows production possibilities frontier for an economy producing at point A

800

Goods X

Goods Y

400

200

0

100

200

300

A

What is the quantity of good X given up to produce the quantity of good Y ?

i. 100 ii. 200 iii. 400 iv. 500 v. 700

07. The problem of scarcity,

i. Exist only in economies which rely on a mixed economy.

ii. Means there are shortages of some goods.

iii. Exists now but will be eliminated with economic growth.

iv. Exists because human wants cannot be satisfied with available resources.

v. Could be eliminated if we could force prices to fall.

08. In a planned economy, the question of “for whom to produce?” Is determined primarily by,

i. The sale of resources for income payments in competitive market.

ii. The distribution of production to members of the community based on social customs.

iii. The bargaining process between employers and employees.

iv. Government distributing goods and services to low-income earners.

v. Government centrally setting wages and prices as part of an economic plan.

09. What type of countries have been labeled as transition economies?

i. Countries which are privatishing state enterprises.

ii. New industrialized countries which are moving towards developed status.

iii. Countries which are using modern technology for the production process.

iv. Countries which are moving from central planning to a market system.

v. Countries which have nuclear power.

10. The table below shows the production possibilities of a farmer who uses all his resources to produce wheat and cloth, at a given time.

|  |  |
| --- | --- |
| **Wheat (kg)** | **Cloth (Metres)** |
| 0  10  20  30  40 | 55  50  42  28  0 |

Suppose the farmer currently produces 20kgs of wheat and 42 metres of cloth. According to the above table the marginal opportunity cost of 10 more kgs of wheat is,

i. 5 metres of cloth ii. 4.2 metres of cloth iii. 14 metres of cloth

iv. 1.4 metres of cloth v. 28 metres of cloth

11. Under what circumstances could the demand for a commodity fall with a rise in consumer’s income?

i. When the commodity concerned is an inferior good.

ii. When the income elasticity of demand has a positive value.

iii. When the price elasticity of demand has a negative value.

iv. When the price elasticity of demand has a positive value.

v. When the cross elasticity of demand has a negative value.

12. When the price of a commodity rises, the consumer expenditure on the commodity declines. Under what circumstances could this happen?

i. The commodity is a luxury good.

ii. The commodity is an inferior good.

iii. The commodity has a highly elastic demand.

iv. The commodity has a highly inelastic demand.

v. The commodity has very close substitutes.

13. The prices of agricultural products such as potatoes and big onions are high during certain periods of the year while very low in other periods of the same year. The main reason for this is,

i. The existence of inelastic demand and elastic supply.

ii. The existence of elastic demand and elastic supply.

iii. The existence of inelastic demand and inelastic supply.

iv. The existence of elastic demand and inelastic supply.

v. The existence of perfectly elastic demand and perfectly inelastic supply.

14. The demand and supply data for a particular good is given below,

|  |  |  |
| --- | --- | --- |
| **Price (Rs)** | **Demand (Units)** | **Supply (Units)** |
| 80  100 | 400  200 | 800  1000 |

Assume that the demand and supply curves are linear. What is the correct answer that shows the equilibrium price and quantity?

|  |  |  |
| --- | --- | --- |
|  | **Price** | **Quantity** |
| i. | 50 | 500 |
| ii. | 60 | 400 |
| iii. | 60 | 600 |
| iv. | 65 | 300 |
| v. | 70 | 500 |

15. Suppose the price elasticity of demand for cigarettes is less than one. When an exercise tax is imposed on cigarettes production, it changes the price, quantity and consumer spending in which of the following ways?

|  |  |  |  |
| --- | --- | --- | --- |
|  | **Price** | **Quantity** | **Consumer Spending** |
| i. | Decrease | Increase | Increase |
| ii. | Decrease | Decrease | Decrease |
| iii. | Increase | Decrease | Decrease |
| iv. | Increase | Decrease | Increase |
| v. | Increase | Increase | Increase |

16. What is necessary for consumer surplus to be zero?

i. Demand is perfectly price elastic. ii. Demand is perfectly price inelastic.

iii. Supply is perfectly price elastic. iv. Supply is perfectly price inelastic.

v. Price elasticity of demand is relatively greater than the price elasticity of supply.

17. Assume that demand for bottle water is relatively price elastic. An increase in supply of bottle water will result in which of the following?

i. An excess supply of bottle water.

ii. An excess demand for bottle water.

iii. A decrease in price, leading to an increase in total revenue.

iv. A decrease in price, leading to decrease in total revenue.

v. A relatively small decrease in price and no change in equilibrium quantity.

18. The diagram below represents a market for an agricultural product.

Q1

Q2

Quantity (Units)

Price (Rs)

H

Supply

Minimum Price

B

C

P2

P1

0

Q3

Demand

A

G

F

E

D

The government sets a minimum price of OP2. Assuming that it buys of all the surplus stocks at the minimum price, formers surplus will be,

i. A P1 E ii. P2 H B iii. P1 H E iv. A P2 C v. E F G

Price (Rs)

S

0

Quantity (Units)

19.

Which statement correctly describes the price elasticity of supply along the curve shown in the above diagram?

i. It increase as quantity increases.

ii. It diminishes as quantity increases.

iii. It is constant and greater than unity at all quantities.

iv. It is constant and less than unity at all quantities.

v. It is equal to unity at all quantities.

20. The demand for a particular normal good is inversely related to price while its supply is positively related to price. During a given time period, 5000 units are sold at a price of Rs. 50 a unit and during a latter period 8000 units are sold at a price of Rs. 60 per unit. Which one of the following could account for this change?

i. An increase in the cost of raw materials. ii. Imposition of a sales tax on the good.

iii. An increase in the productivity of inputs. iv. An increase in the price of a substitute.

v. An increase in the price of a complement.

21. Which one of the following is not consistent with perfect competition?

i. A large number of producers and consumer.

1. One market price only.

iii. Advertising by individual firms.

iv. A homogeneous product.

v. A perfectly elastic demand curve for each firm.

22. To increase its labour force from 100 to 101 workers, a firm has to increase its daily wage rate from Rs. 600 to 650. Under this situation, the marginal cost of labour per day is,

i. Rs. 50 ii. Rs. 650 iii. Rs. 5650 iv. Rs. 60,000 v. Rs. 65,650

23. Even if the average fixed cost of a firm continuously decreases with the increase in output, it never becomes zero because,

i. There is a variable cost. ii. There is a fixed cost.

iii. There is a marginal cost. iv. There is an average cost.

v. The total cost does not change.

24. A monopoly firm can decide,

i. The price of the good only. ii. The quantity of the good only.

iii. The price or quantity of the good only. iv. Both price and quantity of the good.

v. Both production cost and quantity of the good.

25. In the short run, if a firm produces nothing, which of the following costs will be zero?

i. Opportunity cost ii. Total cost iii. Total fixed cost iv. Total variable cost v. Average total cost

26. Which of the following is included in the calculation of personal income, but not in national income?

i. Transfer payments ii. Undistributed corporate profits

iii. Net interest iv. Corporative dividends

v. Social security contributions.

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

|  |  |  |
| --- | --- | --- |
|  | **Norminal GDP** | **Real GDP** |
| i. | Increased | Increased |
| ii. | Unchanged | Unchanged |
| iii. | Decreased | Decreased |
| iv. | Increased | Unchanged |
| v. | Decreased | Increased |

28. Which of the following would not affect the size of real GDP,

i. A consumer purchases a new car for personal use.

ii. A consumer purchases a haircut from a hairdresser.

iii. The government purchases a new bus for the defense academy.

iv. An investor purchases a rare renaissance painting at an auction.

v. A firm purchases a new power generator for its factory.

29. In a given period the sum of value added in all production activities within a certain geographical area is termed as,

i. Total industrial output. ii. Gross value added

iii. Gross domestic product. iv. Gross National product

v. Net value added.

30. If real GDPin the economy is Rs. 8000 billion in the current year and nominal GDP is Rs. 6000 billion in the same year, then the GDP deflator is,

i. 75 ii. 133 iii. 166 iv. 175 v. 200

31. If the aggregate consumption function is given to be C = 80 + 0.7 Yd and the national income (Y) = 1000 and direct taxes (T) = 200, then the level of savings in the economy?

i. 160 ii. 240 iii. 640 iv. 800 v. 880

32. In a household with annual disposable income of Rs. 60,000 and consumption expenditure of Rs. 45,000 means its,

i. Marginal propensity to save is 0.25

ii. Marginal propensity to consume is 0.25

iii. Marginal propensity to consume is 0.75

iv. Average propensity to consume is 0.75

v. Average propensity to consume is 0.25

33. In a closed economy with only lump-sum taxation, if the marginal propensity to save is equal to 0.25, a Rs. 80 billion increase in government purchases could cause a maximum increase output of,

i. Rs. 80 billion ii. Rs. 80.25 billion iii. Rs. 160 billion

iv. Rs. 240 billion v. Rs. 300 billion

34. Consider that in an economy autonomous consumption is Rs. 600 million and the marginal propensity to save is 0.2. If gross national disposable income increases by Rs. 1000 million in this economy, consumption will increases by,

i. Rs. 200 million ii. Rs. 600 million iii. Rs. 800 million

iv. Rs. 1400 million v. Rs. 1600 million

35. The short run aggregate supply curve,

i. Slope downward and to the right. ii. Slope upward and to the right.

iii. Graphs as a horizontal line. iv. Graphs as a vertical line.

v. Is steeper below the full employment output.

36. Which one of the following would lead to a contraction in money supply?

i. Central bank buying government securities.

ii. Central bank encouraging commercial banks to increase loans.

iii. An increase in personal income tax.

iv. A depreciation in the exchange rate.

v. Central bank selling government securities.

37. Interest rate will be an effective instrument of monetary policy if,

i. An increase in interest rates raises the cost of government borrowing.

ii. The demand for bank loans is interest elastic.

iii. The supply of money is interest elastic.

iv. The demand for bank loans is interest inelastic.

v. The supply of money is interest inelastic.

38. Commercial banks can create money by,

i. Converting reserves into securities.

ii. Buying treasury bills from the central bank.

iii. Sending cash in hand to the central bank.

iv. Maintaining a 100% reserve requirement.

v. Lending excess reserves to customers.

39. Sri Lankan commercial banks maintain their statutory reserves in the form of,

i. Cash in hand and deposits at the central bank.

ii. Cash in hand and treasury bills.

iii. Gold and foreign currency in their bank vaults.

iv. Deposits at other commercial banks that are immediately accessible.

v. Deposits and foreign currency at the central bank.

40. The concepts of near money refers to,

i. Financial assets whose capital values are too unstable for them to be classified as money.

ii. Liquid assets that fulfill the medium of exchange function but not the store of value function.

iii. Liquid assets that fulfill the store of value function but not the medium of exchange function.

iv. Cheques on demand deposits.

v. Credit cards.

41. The major determinants of comparative advantage among countries include all of the following except,

i. Per capita income. ii. Climate iii. Labour force skills

iv. Capital per worker v. Geographical location.

42. For what purposes are countries holding official foreign exchange resources?

i. To finance overall deficit in the balance of payments.

ii. To maintain the stability of the exchange rate.

iii. To finance emergency imports.

iv. For purpose of national security.

v. For speculative purposes.

43. Devaluation of a country’s currency would necessarily result in a fall in the,

i. Budget deficit. ii. Interest of trade. iii. Terms of trade.

iv. Balance of payment surplus. v. External assets.

44. Which of the following items is not included in the current account of a country’s balance of payments?

i. Invisible exports. ii. Interest payment on foreign loans.

iii. Profits earned from foreign investments. iv. The purchasing of foreign securities.

v. Food aid donated by united nations organization.

45. In which of the following circumstances could international monetary fund (IMF) be called into assist a country?

i. Trade dispute. ii. A balance of payment crisis.

iii. A foreign investment dispute. iv. An infrastructure funding shortage.

v. An economic recession.

46. The national official poverty line in Sri Lanka is based on,

i. The per capita food expenditure per month.

ii. Earnings of US dollar 2 per day.

iii. Average per capita calorie requirement per day.

iv. Average non-food expenditure of households per month.

v. The real per capita food and non-food consumption expenditure per month.

47. The human development index (HDI) summarizes a great deal of socio-economic performance in a single composite index, combining,

i. Infant mortality, life expectancy and adult literacy rate.

ii. Health, education and environment.

iii. Minimum schooling, adult literacy and clean environment.

iv. Nutrition, adult literacy and quality of housing.

v. Longevity, education and living standard.

48. Economic development refers to,

i. Economic growth.

ii. Elimination of relative poverty.

iii. Sustainable increase in gross national product.

iv. Improvement of the well-being of the urban population.

v. Economic growth plus desirable changes in income distribution and economic structure.

49. The table shows population and labour force data for an economy at a given time.

|  |  |  |  |
| --- | --- | --- | --- |
| **Population**  **(Million)** | **Population of working age (Million)** | **Employed persons**  **(Million)** | **Unemployed persons**  **(Million)** |
| 30 | 15 | 9 | 3 |

According to the data given above the participation rate and the unemployment rate respectively are,

i. 50% and 20% ii. 60% and 25% iii. 60% and 20%

iv. 80% and 25% v. 50% and 25%

50. In a country with a working-age population of 130 million, 90 million workers are employed and 10 million workers are unemployed. What is the unemployment rate?

i. 5% ii. 7% iii. 9% iv. 10% v. 13%