



University of Colombo, Sri Lanka

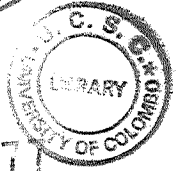
University of Colombo School of Computing
BACHELOR OF SCIENCE IN INFORMATION SYSTEMS

First Year Examination — Semester II— UCSC AY20 [held in March/April 2024]

IS 1115 — Fundamentals of Economics

(Two (2) Hours)

Answer All Questions



To be completed by the candidate

Index Number

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Important Instructions to candidates:

- The medium of instructions and questions is English.
- This paper has 12 pages (including the Cover Page).
- Note that questions appear on both sides of the paper. If a page or a part of this question paper is not printed, please inform the supervisor immediately.
- There are 40 MCQs and one structured question. The MCQs carry 80 marks and the structured question carries 20 marks. Each MCQ has five (5) choices. Some of them have more than one correct answer. You have to mark all the correct answers to obtain full mark.
- Negative marks are given for obviously incorrect answers. Therefore, blind guessing is discouraged.
- Page 12 could be used to plot graphs and state assumptions.
- Answers to MCQs should be marked on the special answer sheet provided.
- Non Programmable Calculators may be used.
- Do not tear off any part of this answer book. Under no circumstances may this book, used or unused, be removed from the Examination Hall by a candidate

To be completed by the examiners

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Index Number

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1. (a). List all Millennium Development Goals.

[6 marks]

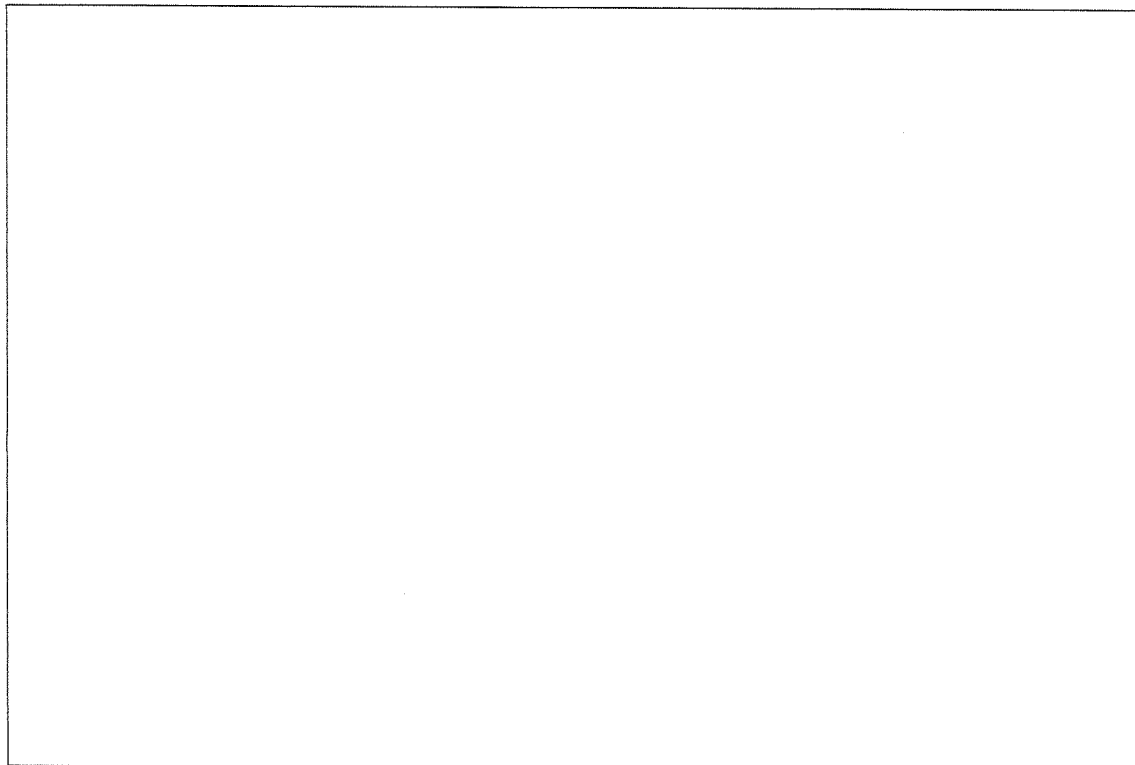
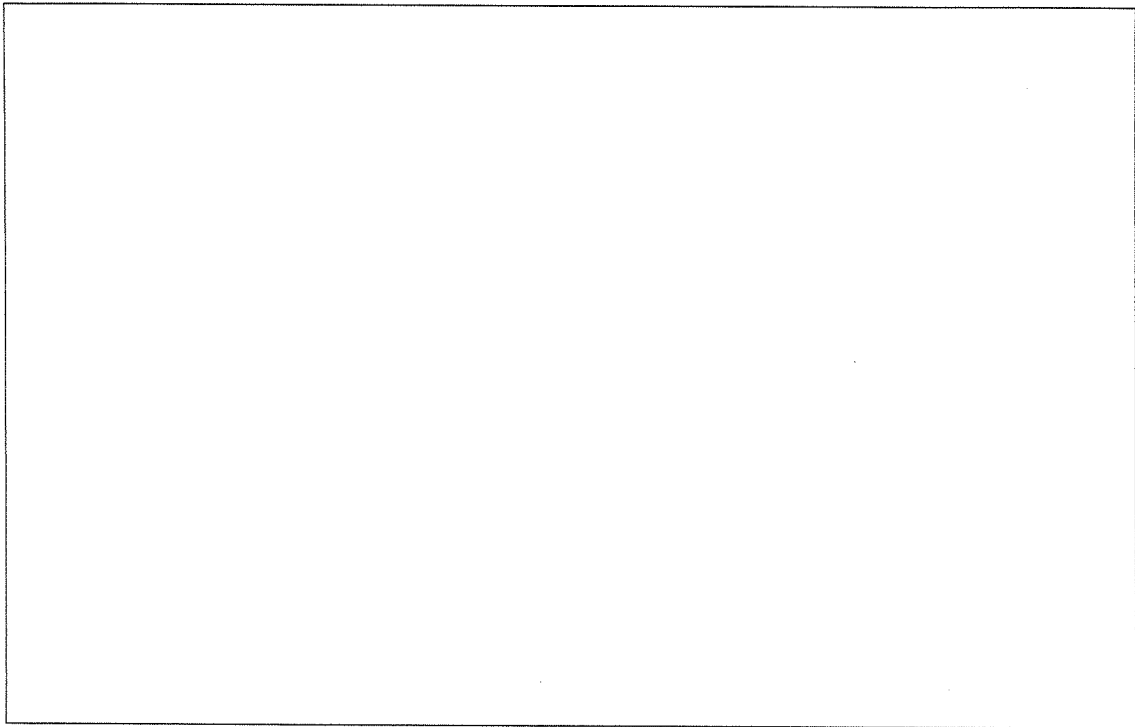
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Index Number

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(b). Graphically show the situations where incidence of tax falls entirely on consumer.

[4 marks]



Index Number

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(c). Briefly discuss the needs and wants of a computing professional in Sri Lanka.

[6 marks]

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(d). Discuss the relationship between the happiness and economic development using a suitable graph.

[4 marks]

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Use the above information to answer questions 1-20. Questions 1-10 carry 2 marks each and questions 11-20 carry 3 marks each.

Each of the following suppliers are willing to sell 10KGs of a product at the following prices.

Supplier	Price (LKR)
A	5
B	10
C	15
D	20
E	25
F	30
G	35
H	40
I	45

1). Assume that the total demand is 40KGs. What is the market price ?

- (a) LKR 10
- (b) LKR 20
- (c) LKR 40
- (d) LKR 35
- (e) No answer

2). Who is the most inefficient supplier?

- (a) Supplier A
- (b) Supplier B
- (c) Supplier I
- (d) All of them
- (e) None of them

3). Suppose the government allows importation of the product. As a result, supplier Z imports and sells the product at price 18 LKR per 10 KGs. Z can import and sell any amount. The demand is 40 KGs. Which suppliers would survive in the market?

- (a) Supplier A
- (b) Supplier B
- (c) Supplier C
- (d) Supplier D
- (e) None of the suppliers

4). Supplier Z keeps on importing the product and selling. The demand for the product increased from 40 KGs to 50 KGs. What would be the new market price?

- (a) 15 LKR
- (b) 25 LKR
- (c) 18 LKR
- (d) 10 LKR
- (e) 45 LKR

5). Assume that the conditions remain the same. What is the profit of Supplier A?

- | | | |
|------------|------------|------------|
| (a) 5 LKR | (b) 18 LKR | (c) 13 LKR |
| (d) 20 LKR | (e) 40 LKR | |

6). Assume that the conditions remain the same. Suppose a consumer is willing to pay 50 LKR for 10 KGs. What is his consumer surplus?

- | | | |
|------------|------------|------------|
| (a) 32 LKR | (b) 5 LKR | (c) 45 LKR |
| (d) 35 LKR | (e) 10 LKR | |

7). The government decides to ban the importation of the product.
The demand curve is given by $P = .5Q + 55$ where P and Q stand for price and quantity respectively.
What would be the new market price?

- | | | |
|------------|--------------|------------|
| (a) 18 LKR | (b) 27.5 LKR | (c) 45 LKR |
| (d) 35 LKR | (e) 40 LKR | |

8). Suppose the government keeps on banning the importation of the product. Who would be able to get into the market?

- | | | |
|----------------|----------------|----------------|
| (a) Supplier D | (b) Supplier B | (c) Supplier E |
| (d) Supplier G | (e) Supplier F | |

9). Suppose the government allows to import only 10 KGs of the product and sells it in the market and the demand is 50KGs. One importer is willing to sell the product at 12 LKR. What is the new market price?

- | | | |
|------------|------------|------------|
| (a) 20 LKR | (b) 12 LKR | (c) 18 LKR |
| (d) 30 LKR | (e) 25 LKR | |

10). Suppose the government wants to discourage the importation of the goods, what are the possible measures?

- | |
|--|
| (a) Government does not have any option. |
| (b) Depreciate the local currency. |
| (c) Appreciate the local currency. |
| (d) Provide subsidiary to local manufacturers. |
| (e) Impose an import duty. |

- 11). Suppose the government imposes unit tax on the production and the demand is 50 KGs. Importation is banned. Under this tax system, every 10KGs is required to pay 5 LKR. What is the new market price ?

(a) 30 LKR	(b) 12 LKR	(c) 18 LKR
(d) X LKR and Y	(e) X LKR and Y	

- 12). Assume that condition remains the same. What is the total government tax collection?

(a) 250 LKR	(b) 200 LKR	(c) 500 LKR
(d) 50 LKR	(e) 1000 LKR	

- 13). Suppose the government imposes 100% Ad valorem tax on every 10KGs of the production. What would be the price of Seller I for 10KGs?

(a) 90 LKR	(b) 45 LKR	(c) 5 LKR
(d) 100	(e) 50 LKR	

- 14). The demand curve is given by $P = .5Q + 55$ where P and Q stand for price and quantity respectively. Once the government imposed 5 LKR for every 10KGs produced. What is the tax contribution of the buyer for every 10KG?

(a) 2.50 LKR	(b) 2.00 LKR	(c) 1.50 LKR
(d) 5 LKR	(e) 3 LKR	

- 15). Once the unit tax is imposed, what is the surplus at price 40 LKR.

(a) 30 units	(b) 50 units	(c) 20 units
(d) 25 units	(e) 10 units	

Use the following information to answer Questions 17 and 18.

Suppose the exchange rate between country India and Sri Lanka is 1:2. In other words, one Indian rupee gets 2 Sri Lankan rupees. A soap costs 100 SLRs in Sri Lanka and 50 INRs (Indian Rupee) in India.

16). Identify the correct statement(s).

- (a) There is no financial incentives to import or export soap.
- (b) There might be foreign trade if the quality is superior in one country.
- (c) It is profitable for Sri Lanka to export soap.
- (d) It is profitable for India to export soap.
- (e) It is profitable for Sri Lanka to import soap.

17). Suppose the cost of production in Sri Lanka was increased due to inflation. As a result, the prices of soap in Sri Lanka was increased to 60 SLR. Assume that the exchange rate remains the same.

Identify the correct statement(s).

- (a) There is no financial incentives for India to import or export soap.
- (b) There is no financial incentives for Sri Lanka to import or export soap.
- (c) It is profitable for Sri Lanka to export soap.
- (d) . It is profitable for India to import soap.
- (e) It is profitable for Sri Lanka to import soap.

18). Identify the correct statement(s) with respect to **inflation**.

- (a) Increasing the salaries of government employees leads to inflation.
- (b) Reducing the tax rate leads to inflation.
- (c) Foreign remittances leads to inflation.
- (d) The buying treasury bonds by the central bank leads to inflation.
- (e) Fixing the exchange rate would lead to inflation.

19). Who originally proposed the concept that the invisible hand of the market would allocate resources in the best interest of all parties involved?

- (a) John Maynard Keynes
- (b) Karl Marx
- (c) Vladimir Lenin
- (d) Friedrich Hayek
- (e) Adam Smith

20). Consider the following information -

Year	Number of units sold	Selling price
2022	15	30
2023	15	25

Which of the following changes in demand and supply could have caused this outcome in year 2023?

Choice	Demand	Supply
(I)	Increase	Increase
(II)	Increase	Decrease
(III)	Decrease	Increase
(IV)	Decrease	Decrease
(V)	Increase	No change

- | | | |
|----------|----------|-----------|
| (a) (I) | (b) (II) | (c) (III) |
| (d) (IV) | (e) (V) | |

21). Who initially advocated for a society where the means of production are collectively owned by the community rather than privately, aiming for a classless society?

- | | | |
|---------------------|-------------------------|---------------|
| (a) Adam Smith | (b) John Maynard Keynes | (c) Karl Marx |
| (d) Milton Friedman | (e) Friedrich Hayek | |

22). Which of the following model could be used to describe an economic growth of a country?

- | |
|-------------------------------------|
| (a) Production Possibility Frontier |
| (b) Gini Index |
| (c) Demand and supply curve |
| (d) Inflation rate |
| (e) Consumer Price Index |

23). Which of the following could be used to measure the development of a country?

- | |
|-----------------------------------|
| (a) Gross Domestic Product (GDP) |
| (b) Human Development Index (HDI) |
| (c) Poverty rate |
| (d) Literacy rate |
| (e) Employment rate |

24). There is a difference between accounting profit and economic profit due to

- (a) the inclusion of implicit costs in economic profit calculations
- (b) different methods of revenue calculation
- (c) the consideration of taxes in economic profit calculations
- (d) the exclusion of explicit costs in economic profit calculations
- (e) the opportunity cost

25). During the last 76 years, Sri Lanka as a country invested more on

- (a) capital goods compared to consumer goods.
- (b) consumer goods compared to capital goods.
- (c) education and healthcare
- (d) agriculture
- (e) defense

26). Identify the correct statements about **Barter Economy**.

- (a) Barter economy involves the direct exchange of goods and services without the use of money.
- (b) Barter trade can occur between individuals, businesses, or even nations, where each party offers something they have in exchange for something they want.
- (c) In a barter economy, there is always a perfectly equal exchange of value between the goods or services traded.
- (d) Barter economy eliminates the need for specialization and division of labor.
- (e) Barter economy is the most efficient form of economic exchange compared to monetary economies.

27). Identify the correct statement(s) of **Giffen** goods.

- (a) Giffen goods are rare and usually pertain to inferior goods with no close substitutes.
- (b) Giffen goods always have a positive income elasticity of demand.
- (c) Giffen goods are typically luxury items.
- (d) Giffen goods violate the law of demand by having an upward-sloping demand curve.
- (e) Giffen goods are unaffected by changes in price.
- (f) Giffen goods are commonly found in affluent societies.

28). Which of the following measures could be used to compare the living standards of professionals in India, USA, Sri Lanka, and South Sudan?

- (a) GDP of the country.
- (b) GDP per Capital.
- (c) Purchasing Power Parity.
- (d) Gini Index.
- (e) Literacy rate.

29). It is reported that the inflation was reduced in 2024. This implies

- (a) The prices of goods are cheaper in year 2024 compared to year 2023.
- (b) The increment of the prices are less compared to that of year 2023.
- (c) Prices of goods are reduced in 2024.
- (d) It is expected that the prices will be cheaper in year 2025.
- (e) prices have been increased but at a lesser rate compared to year 2023.

30). Which of the following country does not consider the Gross Domestic Product (GDP) as a primary development index?

- (a) India
- (b) USA
- (c) Russia
- (d) Bhutan
- (e) Uruguay

The following information is about the recent development in Sri Lankan Economy. State whether each statement is correct or not by placing ✓ in the corresponding box.

Question	Statement	(in)correct
31	In the year 2023, the Sri Lankan economy was contracted by 2.3%.	
32	The Sri Lankan economy grew by 4.5% the last quarter of year 2023.	
33	The per-capital income of Sri Lanka is around 4,000 USD.	
34	The per-capital income of a Sri Lankan is around 14,000 USD in terms of PPP.	
35	Every Sri Lankan above 18 years old should pay income tax.	
36	The central bank of Sri Lanka calculates and publishes the inflation rate.	
37	Controlling the inflation rate is a duty of the government of Sri Lanka.	
38	The national consumer price index is prepared by the central bank.	
39	Employee remittance is the main foreign income source of Sri Lanka.	
40	The current inflation rate of Sri Lanka is more than 10%.	
