

Identify the factors that can shift a production possibility boundary for X and Y outwards.

- Reduction of inefficiencies of production following a change of management.
- Adoption of improved technology in both industries.
- An inflow of foreign investment to both industries.
- An improvement in the labour productivity of X industry.

2. What type of countries have been labelled as Transition Economies in recent years?

- Countries which are changing from socialism to capitalism.
- Countries which are privatising state enterprises.
- Countries which are moving from central planning to a market system.
- New Industrialized Countries which are moving towards developed status.

3. Identify situations where the opportunity cost is constant in an economy which produces X and Y.

- X and Y are close substitutes.
- The number of units of Y that has to be sacrificed to produce a unit of X remains constant.
- The production possibility boundary is a straight line.
- Fixed costs are an important part of the production costs of both goods.

4. When the price of a commodity rises, the consumer expenditure on the commodity declines. Under what circumstances could this situation arise?

- The commodity has a highly elastic demand.
- The commodity has very close substitutes.
- The commodity has a highly inelastic demand.
- The commodity is an inferior good.

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

- When the cross elasticity of demand has a negative value.
- When the income elasticity of demand has a negative value.
- When the price elasticity of demand has a negative value
- When the commodity concerned is an inferior good.
- When the commodity concerned is a luxury good.

6. Of the following statements about marginal cost, identify those which you consider as correct:

- Marginal cost is the cost of the last unit of production.
- Marginal cost is the addition to the total cost as a result of producing one more unit of production.
- Marginal cost is shown by the slope of the total cost curve.
- Marginal cost is constant in a firm in perfect competition.
- Marginal cost is the opportunity cost of increasing production of a given commodity.

7. What is meant by the concept of short-run as used in the theory of production and costs in Economics?

- A period not exceeding one year.
- A period when some factors of production remain fixed while others can be varied.
- A period when total costs remain unchanged.
- A period when average costs do not vary.

8. Why do we say that a firm in perfect competition can earn only normal profits in the long-run?

- Firm produces a homogeneous product.
- There is free entry into and exit from the industry.
- The firm is a price taker.
- There is large number of firms in the industry.

9. What important features do you identify in the demand for a product sold by a perfectly competitive firm?

- The demand is infinitely elastic at the prevailing market price.
- The demand curve is a horizontal straight line parallel to the quantity axis.
- The demand curve is downward sloping.
- The demand can be increased through advertising.

10. Under what circumstances do consumers have to bear a greater portion of a tax levied on a commodity sold in a competitive market?

- When the demand is highly inelastic.
- When the supply is highly elastic.
- When the demand is highly elastic.
- When the supply is highly inelastic.
- When the demand is unitary elastic.

11. In a given period the sum of value added in all production activities within a certain geographical area is termed as:
(i) Gross National Product
(ii) Gross Domestic Product.
(iii) Real National Product.
(iv) Total Industrial Output.
12. You are given the value of the Gross National Product and you have to calculate the value of the Gross Domestic Product. What adjustments would you make?
(i) Add the value of exports of goods and services.
(ii) Deduct the factor incomes received from abroad.
(iii) Deduct the value of imports of goods and services.
(iv) Add the payments made to factor services obtained from abroad.
(v) Deduct net foreign investment.
13. Identify statements with which you can agree.
(i) Gross Domestic expenditure is the sum of Consumption and Investment Expenditure in an economy.
(ii) Gross Domestic Product equals Gross Domestic Expenditure less imports.
(iii) Net National Product equals Gross National Product less depreciation of capital equipment.
(iv) Gross Domestic Product equals the sum of wages, rent, interest and profits generated by production.
14. Assume that in a simple economy the equilibrium level of income (Y) is Rs. 1000 billion and that the Marginal Propensity to Consume (MPC) is 0.8. By how much does the investment (I) has to rise to achieve an equilibrium income level of Rs. 1500 billion.
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15. Assume that in a simple economy the Average Propensity to Consume (APC) is 0.75 and that the level of investment (I) is Rs. 400 billion. What is the equilibrium level of income?
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16. What are the leakages from the income stream in an open economy? Underline the correct answers.
Consumption; Saving; Investment; Taxes; Subsidies; Imports; Exports; Decline in foreign reserves; Public debt.
17. What is meant by fiscal policy?
(i) Provision of tax concessions to entrepreneurs.
(ii) Policies used to reduce the budget deficit.
(iii) Use of taxation, government expenditure and budget deficit/surplus to achieve economic goals of the government.
(iv) Policies to reduce the deficit in the balance of payments.
18. What was the overall deficit in the government budget of Sri Lanka in 2000 as a percentage of the Gross Domestic Product?
(i) 5 - 6
(ii) 7 - 8
(iii) 9 - 10
(iv) 11 - 12
19. Identify the two most important sources of government revenue in Sri Lanka.
(i) Income taxes
(ii) Taxes on Domestic Goods and Services.
(iii) Taxes on International Trade.
(iv) Other taxes
(v) Non-tax revenue.
20. During 1999 – 2000, interest payments on public debt absorbed a considerable portion of the current expenditure of the government of Sri Lanka. What was the share?
(i) 19% - 21%
(ii) 22% - 24%
(iii) 25% - 27%
(iv) 28% - 30%

Sub-Section A

1. (i) It is often said that 'an invisible hand' operates in a market economy. What do you understand by this statement?
 (ii) It is often said that there is consumer sovereignty in a market economy., Examine this Argument.
 (iii) Name five countries which may be termed as 'Transition Economies'. *(05 marks for a part)*
2. (i) What is meant by Externalities of production?
 (ii) Why do we say that output will not be at its optimum when externalities are present?
 (iii) Illustrate diagrammatically the economic effects of the existence of external costs in the Production of commodity sold in a competitive market. *(05 marks for a part)*
3. Briefly state the economic effects of the following developments using production possibility boundary diagram.
 (i) Drop in agricultural production as a result of a drought.
 (ii) Power crisis leading to a cut in electricity supply every day.
 (iii) Destruction of infrastructure facilities as a result of war.
 (iv) Output increases following the privatisation of state enterprises.
 (v) Implementation of a skill development program for workers in both industries. *(05 marks for a part)*
4. (i) What factors determine the elasticity of supply of a commodity?
 (ii) Assume that as income increases the demand for a commodity rises up to a point and remains unchanged thereafter. Illustrate using diagrams.
 (iv) Briefly explain the practical usefulness of the concept of cross elasticity of demand
(05 marks for a part)

Section 'B'

5. (i) What are the principal economic agents operating in an economy? *(05 marks)*
 (ii) Explain the inter-relationships that exist among these economic agents using a diagram. *(10 marks)*
6. (i) Draw a consumption function of the form $C = a + b Y$ in a diagram and show the Marginal Propensity to Consume (MPC) in your diagram.
 (ii) Assume that the investment level in this simple economy is a fixed amount. Draw the aggregate expenditure function and show the equilibrium level of income.
 (iii) Draw a savings function that corresponds to the consumption function given in (i) above. Show the equilibrium level of income using the method that leakages must equal the additions.
(05 marks for a part)
7. (i) What is meant by Equity as an economic goal of a government?
 (ii) Explain how equity could be introduced into taxation.
 (iii) How could equity be introduced into public expenditure? *(05 marks for a part)*
8. (i) An important consequence of the high budget deficits in Sri Lanka has been a significant increase in the public debt.
 Explain this statement with reference to the period 1998 – 2000. *(10 marks)*
 (ii) What have been the economic consequences of the growth of the public debt? *(05 marks)*

1. What factor distinguishes money from other assets?

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| (i) Convenient to carry (iii) Easy to store | (ii) Liquidity (iv) Government guarantee |
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2. In which of the following categories would you include credit cards?

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| (i) Narrow money (iii) Broad money | (ii) Near money (iv) Money substitutes. |
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3. Identify statements which convey the meaning of velocity of Circulation of Money?

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| (i) Number of times a unit of money is being used for transactions during a given period. (ii) The total expenditure generated by a given unit of money during a certain period. (iii) The ratio between broad money and narrow money in an economy. (iv) The amount of credit that can be created on the basis of given amount of money. (v) The proportion of money supply that is held by the public. |
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4. It is not profitable to hold liquid assets. Why do commercial banks hold a part of their assets in liquid form?

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| (i) To meet the demand for cash from the customers. (ii) For speculative purposes. (iii) To generate confidence among the customers on the safety of their deposits. (iv) Banks do not attempt to maximize profits. (v) To pay dividends to share holders. |
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5. Identify the activities that make the Central Bank a bankers' bank.

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| (i) Commercial Banks keep deposits in the Central Bank. (ii) Central Bank acts as a clearing house for Commercial Banks. (iii) Commercial Banks obtain loans from the Central Bank in times of need for cash. (iv) Central Bank plays an advisory role to Commercial Banks. (v) Commercial Banks own shares of the Central Bank. |
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6. In what circumstance can the real wages fall despite a rise in money wages?

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| (i) When the rate of inflation is higher than the rate of increase of money wages. (ii) When the cost of living increases. (iii) When over-time work is reduced. (iv) When the government reduces subsidies on consumer goods. |
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7. Euro currency came into existence on 1st January 2002. What is Euro?

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| (i) It is a common currency used by all the countries of Europe. (ii) It is a regional currency adopted by 12 member countries of the European Union replacing their national currencies. (iii) It has replaced the US Dollar as a reserve currency in Europe. (iv) It is an international currency created by the International Monetary Fund. |
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8. What is meant by comparative advantage in International Trade?

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| (i) The money cost of producing a commodity is lower in one country compared to that in the other country. (ii) The opportunity cost of producing a certain commodity in one country is lower than that in the other country. (iii) A country has ample resources needed to produce a certain commodity (iv) Labour cost of producing a commodity is relatively cheaper. |
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9. What is the most important case for imposing restrictions on Free Trade?

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| (i) Need for self-sufficiency in some products. (ii) New industries need to be protected as they cannot compete with imported goods because their costs are high initially. (iii) Consumers prefer imported goods. (iv) Free imports lead to balance of payment problems. |
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10. What are the most important items included in the income account of the Current Account of a table of balance of payments?

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| (i) Export Income (ii) Profits and Dividends (iii) Interest on Foreign Debt (iv) Income from Tourist Trade (v) Remittances by migrants to dependants |
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11. What is the indicator of a deficit in the overall balance of payments?

Borrowings from International Monetary Fund

Short-term loans by Importers

- (iii) Decline in net official foreign exchange reserves
(iv) Decline in external assets of commercial banks

12. What is meant by nominal effective exchange rate?

- (i) Exchange rate relative to SDR
(ii) Exchange rate relative to US Dollar
(iii) Trade-weighted average of exchange rates of currencies used in the International trade of a country.
(iv) Average of exchange rates of major international currencies.

13. 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 purposes of national security
(v) For speculative purposes.

14. What important structural changes take place in an economy in a process of economic growth?

- (i) Rise in agricultural productivity.
(ii) Decline in the population who are below the poverty line.
(iii) Decline in the relative importance of agriculture and increase in the relative importance of services.
(iv) Increase in the importance of export-oriented industries.

15. What are principal domestic sources of financing investment in an economy?

- (i) Business Savings
(ii) Insurance Funds
(iii) Taxes
(iv) Government Savings
(v) Household Savings
(vi) Foreign Aid

16. What was the gross domestic investment of Sri Lanka as a percentage of the Gross Domestic Product during 1999-2000?

- (i) 23% - 24%
(ii) 25% - 26%
(iii) 27% - 28%
(iv) 29% - 30%

17. What is meant by 'Labour Force' of a country?

- (i) Population of working age.
(ii) Employed and Unemployed population.
(iii) Adult population less housewives.
(iv) Employed population

18. What is the distinguishing feature of Globalisation as an international economic force?

- (i) Integration of National economies into the World economy through trade, investment, communication and technology.
(ii) Replacement of centrally planned economies by market economies.
(iii) Reduction of the economic role of the state.
(iv) Spread of information technology.

19. Identify statements that indicate a situation of 'economic growth'

- (i) An increase in the Gross National Product at Current Prices in 2000 relative to 1999.
(ii) An average increase of 6 percent in the Gross Domestic Product at constant prices in the decade of the 1990's.
(iii) Shift of the production possibility boundary outwards by 50 percent in the decade of the 1990s.
(iv) An expansion of industrial output.
(v) An increase in exports by 20 percent during 1990-96.

Economic infrastructures help reduce production costs. Identify example of economic infrastructures.

- (i) Schools
- (ii) Hospitals
- (iii) Ports
- (iv) Roads
- (v) Electricity supply
- (vi) Airports
- (vii) Housing programmes
- (viii) Television
- (ix) Telephone facilities
- (x) Shopping Complexes

2002– ECONOMICS - II / Part -II

Section A

1. (i) Broad money covers a wide range of assets rather than a single homogenous, asset. Examine this statement.
(ii) Of what use is a concept of Broad Money?
(iii) Why do people keep part of their assets in the form of money which yields no income? *(05 marks for a part)*
2. (i) What factors limit the credit creating ability of commercial banks?
(ii) What are the economic effects of a rise in the interest rate?
(iii) The Central Bank buys securities in the open market. What are the economic effects of this action? *(05 marks for a part)*
3. How does inflation affect the following?
(i) Imports
(ii) Exports
(iii) Exchange Rate *(05 marks for a part)*
4. (i) What economic benefits does a country get when it moves from 'a closed economy' to 'an open economy'?
(ii) Explain how the rate of effective protection is calculated.
(iii) What are the economic costs of protection? *(05 marks for a part)*

Sub-Section -B

5. (i) Distinguish between **unemployment** and **underemployment**.
(ii) Explain the importance of the concept of underemployment for the understanding of development problems.
(iii) What are the distinguishing features of unemployment in Sri Lanka in recent years? *(05 marks for a part)*
6. (i) Economic growth is an essential requirement for development; but by itself it does not necessarily lead to development.
(i) Why is economic growth considered a necessary requirement for development?
(ii) Besides economic growth what are the other essential requirements for a development process?
(iii) What specific policies could government pursue to ensure that economic growth leads to development? *(05 marks for a part)*
7. (i) When per capita income of countries is compared internationally using US Dollars, income differences tend to be vastly exaggerated. Why is this so?
(ii) What method is being used to obtain a more realistic picture of the income gaps that exist among countries?
(iii) Illustrate your answers to (i) and (ii) above by comparing per capita incomes of US and Sri Lanka. *(05 marks for a part)*
8. Present a brief report on the performance of the economy of Sri Lanka in 2000 with special reference to the following aspects:
(i) Growth of Producing
(ii) Price Level
(iii) Government budgetary operations
(iv) Balance of payments and exchange rate *(15 marks)*