

**2006-ECONOMICS - I / Part -I**

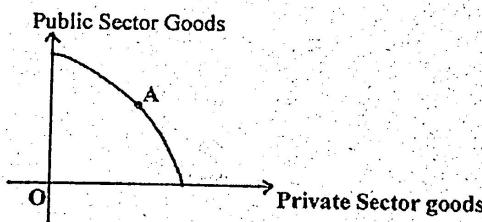
(1) iii	(5) v	(9) ii	(13) ii	(17) iv
(2) iv	(6) ii	(10) iv	(14) iv	(18) ii
(3) iv	(7) i	(11) i	(15) iii	(19) v
(4) iv	(8) v	(12) i	(16) iv	(20) i

**2006 – ECONOMICS - I / Part -II**

**SUB SECTION - A**

- (1) (a) (i) The ownership of the resources in a centrally planned economy is held by the government. (01 mark)  
 The ownership of the resources in a free market economy is held by the Private owners / individuals (01 mark)
- (b) (i) a taxi cab - Capital  
 (ii) computer software – Capital  
 (iii) one hour of legal counsel – Labour  
 (iv) a phosphate deposit - Land  
 (v) a stock of raw material – Capital (05 marks)
- (c) The entire process of production is broken down into smaller, separate units/tasks.  
 This process of specialization is called division of labour. (03 marks)
- The division of labour may reduce costs of production and increase competitiveness in the following ways.
- (i) Individual workers can concentrate on those jobs to which they are most suited.  
 eg: The economists can develop their skills without needing to worry about the problems of accountancy.  
 Practice makes perfect. Once people have learned a job, the skill at it increases.  
 eg: the experienced full time check assistant at a supermarket can deal with a trolley-load of goods more efficiently than a new worker.
  - (ii) Division of labour normally allows a great saving on tools and equipment. Instead of each worker having a complete set of tools, which would be necessary if there were no division of labour, one set can be shared out among the team.
  - (iii) As the work is broken down into individual tasks it is likely that new and more efficient techniques will be developed.
  - (iv) Since the employee does not move on to various tasks in the process of production, his time is not wasted unnecessarily.

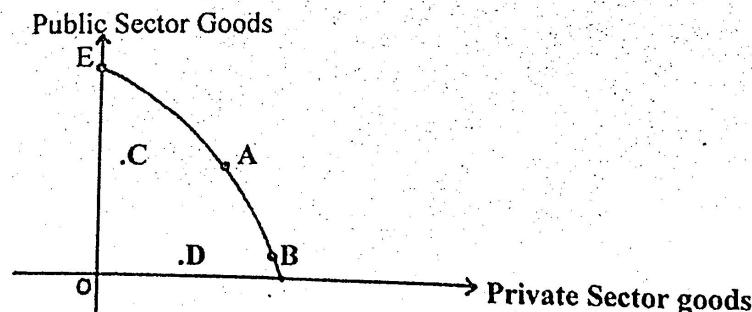
(2) (a)



(If the two axes have been named correctly and the production possibility curve has been drawn correctly =01 Mark)

(For locating the point "A" on the mid-point of the Production Possibility Curve =01 Mark)

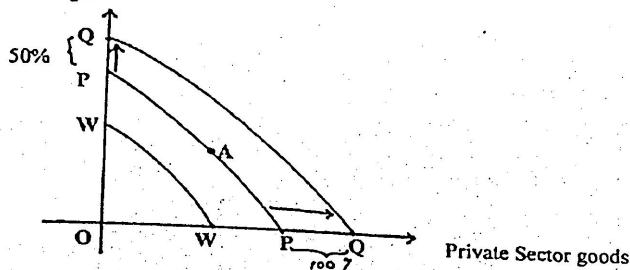
(b)



- (i). Point B should be located on the right side of the Point A on the above PPC.
- (ii). Any point inside the same PPC, could be point C.

- (iii) When the economy is in a recession the production is increased whereas the income is reduced. Therefore point D also should be any point inside the PPC.  
 (iv) If the state takes over production of goods and services in the economy, the Total production of private sector goods may become zero. Therefore, point A Should be located on the production possibility curve at the point it can intersect the Y axis. (04 Marks)

(C). Public Sector goods

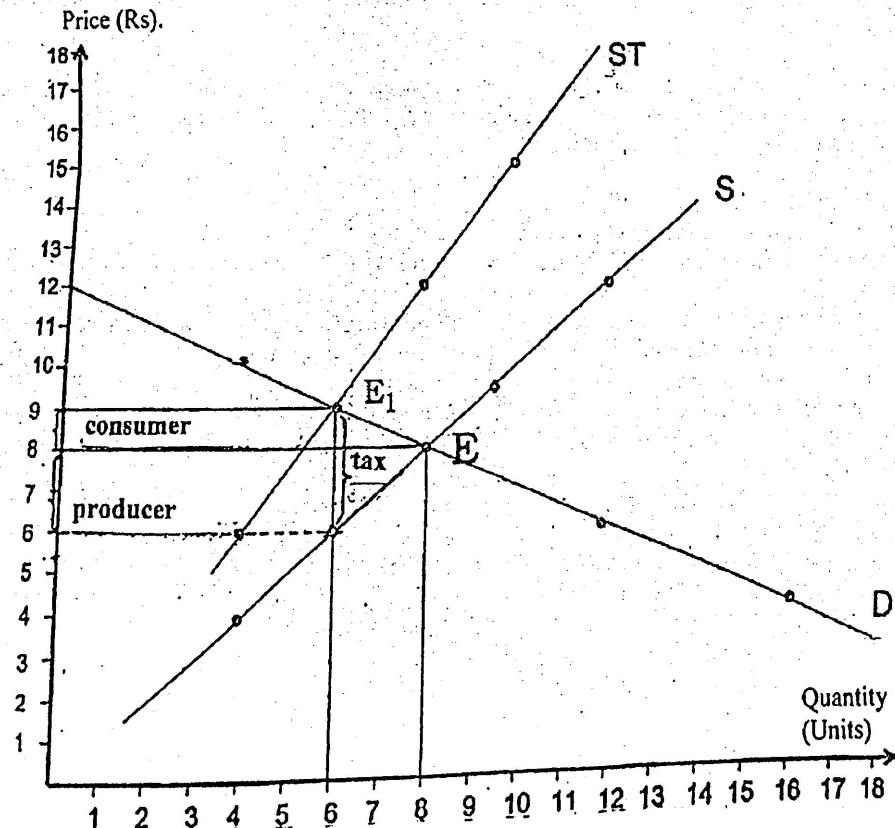


After a devastating war has hit the economy, that economy's resources such as labour and capital are largely destroyed. Therefore, the amount of resources available in the economy is considerably reduced. As a result of that the PPC (P-P) is shifted downwards to its new position W-W. (02 Marks)

- (i) When there is an increase in productivity by 50% in the Public Sector goods and 100% in the Private Sector goods, P-P curve shifts to Q-Q position creating 50% increase in the Y axis which represents Public Sector goods and 100% increase in the X axis which shows the Private Sector goods. (02 Marks)
- (d) A critical answer is expected including the following points:  
 (i) Literally, the phrase full employment of resources refers to utilizing all the capital, human and natural resources in the process of production at present. Therefore, those economies can move on to higher economies of scale and exist on the Production Possibility frontier.  
 (ii) If all societies decide to use their resources fully in order to maximize their level of production, then future generations will be severely affected because they may lack resources to use due to environmental damages.  
 (iii) Therefore, what we mean by full employment of resources is not just its literal meaning but the sustainable development. In other words there shouldn't be any harm to the existing capital of the economy while reaching the efficiency and effectiveness of utilization of resources.

(Maximum 05 marks)

(3).



- (a). Correctly drawn demand curve (D) (01 Mark)  
 Correctly drawn supply curve (S) (01 Mark)  
 Equilibrium price according to the graph = 8.00 Rs. (01 Mark)

- (b) In order to show the value added tax of 50% that was imposed by the government, the supply curve should be shifted upwards by 50% at each point. (ST) (02 Marks)
- (c) (i). According to the graph,  
New equilibrium price is 9.00 rupees.  
New equilibrium quantity is 06 units. (02 Marks)
- (d) The tax per unit is 3.00 rupees. (02 Marks)
- (e) (i). Incidence of tax per unit on the consumer = Rs.1.00  
(ii) Incidence of tax per unit on the producer = Rs.2.00 (02 Marks)
- (f) The total government revenue from tax =  $6 \times 3 = \text{Rs.}18$  (02 Marks)
- (g) The change in the tax revenue of the producer is 10/= rupees.  
Revenue of the producer before the tax = 8.00 Rs.  $\times 8 = \text{Rs.}64$   
Revenue of the producer after the tax = 9.00 Rs.  $\times 6 = \text{Rs.}54$   
The change =  $64 - 54 = 10$  = 10/= rupees (02 marks).
- (4) (a) When only the variable factors are increased having other factors constant during the process of production in the short run, beyond some point, the output grows at a diminishing rate with an increase in the variable input is known as the law of diminishing return. In other words if equal amounts of a variable inputs are added and all other inputs are held fixed, the resulting increase in output will eventually diminish. The cost of production and the productivity of output are inversely related. Average cost curve and the Marginal Cost curve in a firm at the short run take "U" shape because of the law of diminishing marginal return.  
Since the marginal return increases at the beginning of the variable inputs its marginal cost and the average cost may be decreased. But later marginal return of variable inputs starts diminishing whereas the marginal cost and the average cost start increasing. (02 marks)
- In the long run, all the inputs are variable. When all the inputs are increased at certain percentage how the output is changed is shown by the law of returns to scale. Returns to scale has three types, namely, increasing returns to scale, decreasing returns to scale and constant returns to scale. Long term average cost curve and the long term marginal cost curve take the shape of the letter "U" as a result of the law of returns to scale.
- When there are increasing returns to scale the long turn average cost diminishes. Whenever the returns to scale are decreasing the long turn average cost is increased. Constant returns to scale make no changes in average cost of production. (02 marks)
- (b) (a) Characteristics of perfect competition.  
(i) Firms sell a standardized product.  
(ii) Firms are price takers. This means the individual firm treats the market price of the product as given.  
It must believe that the market price will not be affected by how much output it produces.  
(iii) Factors of production are perfectly mobile in the long run.  
(iv) Firms and consumers have perfect information.  
(v) A large number of sellers and buyers in the market could be seen.  
(vi) No barriers to entry or exit. (maximum 02 marks)
- (b) Characteristics of Oligopoly.  
(i) There are few sellers.  
(ii) Barriers to entry.  
(iii) A small number of competitive firms to control the market. (02 marks)
- (C) (i) Profit per unit is 2.00 rupees.  
Price of a unit = 10.00 rupees  
Cost of a unit = 8.00 rupees.  
Therefore, the profit per unit =  $10 - 8 = \text{Rs.}2$  (02 marks)
- (ii) Total profit = Profit per unit  $\times$  Units sold  
 $= 2.00 \times 300 = \text{Rs.}600$  (02 marks)
- (d) A firm's profit equals zero when its revenue equals cost, ( $TR = TC$ ) or at the point its price of a unit equals the average total cost. (02 marks)  
(01 mark)

Therefore it should be noted that the firm does not go bankrupt even if it makes zero economic profits. This situation is satisfactory because the firm has been able to cover at least the opportunity cost of the allocated resources in the process of production. (01 mark)

Economical profits and losses play a vital role in a free market economy. Existing losses in a firm gives a signal to the other investors to enter to the same industry. At the same time these losses signal the present investors to leave the business. But once the economic profits equal zero there is no such influence for the investors either to enter into the business or to leave out from the business.

(01mark)

#### SUB SECTION - B

- (5) (a) Gross Domestic Product should be computed using the expenditure method.  

$$\text{Gross Domestic Product (GDP)} = \text{Private Consumption} + \text{Gross Investments} + \text{Government Spending} + \text{Net Exports}$$

(01 Mark)

$$\begin{aligned}\text{Therefore, GDP} &= C + I + G + (X - M) \\ \text{Private Consumption (C)} &= \text{Disposable income} - \text{Personal Savings} \\ &\equiv Y_d - S \\ &= 460 - 60 = 400\end{aligned}$$

(01 mark)

$$\begin{aligned}\text{Government Spending on goods and services (G)} &= 200 \\ \text{Net exports} &= X - M = -20\end{aligned}$$

$$\begin{aligned}\text{Therefore, GDP (at market price)} &= C + I + G + (X - M) \\ &= 400 + 100 + 200 + (-20) = 680\end{aligned}$$

Therefore, GDP is 680 billion rupees.

(02 marks)

- (b) National Income is calculated at factor price.  

$$\begin{aligned}\text{Therefore, National Income} &= \text{G.N.P.} - \text{Indirect Taxes} - \text{Depreciation.} \\ \text{Gross National Product} &= \text{G.D.P.} + \text{Net Foreign Factor Income} \\ &= 680 + (-10) = 670 \text{ billion rupees.}\end{aligned}$$

(01 mark)

$$\begin{aligned}\text{National Income (at Factor Price)} &= \text{G.N.P. at market price} - \text{Indirect Taxes Depreciation} \\ &= 670 - 110 - 60 = 500\end{aligned}$$

Therefore, NI = 500 billion rupees.

(02 marks)

- (c) Personal Income = Disposable Income + Personal Income Tax  

$$= 460 + 80 = 540 \text{ billion rupees.}$$

(02 marks)

- (6) (a) (i) The equilibrium level of aggregate output = Y  

$$\begin{aligned}Y &= C + I \\ Y &= 150 + 0.6 Y_d + 50 \\ (\text{In a simple economy } Y &= Y_d)\end{aligned}$$

(03 marks)

$$\begin{aligned}Y - 0.6 Y &= 200 \\ 0.4 Y &= 200 \\ Y &= 200 / 0.4 = 500 \\ \text{Therefore, } Y &= 500 \text{ billion rupees.}\end{aligned}$$

(03 marks)

- (ii) Investment Multiplier = K  

$$K = 1 / (1 - mpc) = 1 / (1 - 0.6) = 1 / 0.4 = 10 / 4$$
  

$$\text{Therefore, } K = 2.5$$

(02 marks)

- (b) (i) 
$$\begin{aligned}Y &= C + I + G \\ &= 150 + 0.6 Y_d + 50 + 100 \\ &= 150 + 0.6 (Y - T) + 150 \\ &= 300 + 0.6 (Y - 100) \\ &= 300 + 0.6y - 60 \\ Y - 0.6 Y &= 240 \\ 0.4 Y &= 240 / 0.4 = 600 \\ \text{Therefore, } Y &= 600 \text{ billion rupees}\end{aligned}$$

(03 Marks)

- (ii) 
$$\begin{aligned}Y &= C + I + G \\ 800 &= 150 + 0.6 Y_d + 50 + G \\ G &= 800 - 200 + 0.6 (Y - T) \\ G &= 800 - 200 + 0.6 (800 - 100) \\ G &= 800 - 200 + 0.6 (700) \\ G &= 800 - (200 + 420) \\ G &= 800 - 620 = 180\end{aligned}$$

Therefore, in order to reach an equilibrium output of 800 billion rupees in this economy, the government spending should be 180 billion rupees. In other words it should be changed in 80 billion rupees. (05 marks)

- (7) (i) Negative externalities in production
- A firm that releases chemicals into the environment.
  - Production that is harmful to the ozone layer.
  - Production processes in which combustion of fossil fuel takes place.
- (01 mark for any correct answer)
- (ii) Positive externalities in production.
- New researches
  - Education
  - Technical Training
  - Preventing Floods
  - Reforming buildings
  - Health facilities
  - Bee keeping
  - Providing professional training.
- (01 mark for any correct point)
- (iii) Negative externalities in consumption.
- Environment pollution caused by the emission of fuel through transportation.
  - Dumping garbage
  - Smoking
  - Alcohol Consumption.
- (01 mark for any correct answer)
- (iv) Positive externalities in consumption.
- Vaccinating against transmitting diseases.
  - Personal health habits
  - Education
  - Charity
- (one mark for any correct point)
- (b) Unregulated markets fail to allocate resources efficiently under following reasons.
- (i) Dominant monopolies and economical or political reasons.
  - (ii) Non-supply of public goods.
  - (iii) Less production of merit goods.
  - (iv) More production of demerit goods. (Eg: cigarettes, alcohol).
  - (v) Price mechanism that pays no attention to the positive and negative externalities in consumption and production
  - (vi) Factor mobility.
  - (vii) Imperfect knowledge.
- (04 marks for any 04 correct points)
- (c) The economic arguments against producer subsidies can be given as follows:
- (i) Create market inequalities thus creating in-efficiency in the distribution of resources
  - (ii) Disturbances on Free Trade.
  - (iii) High financial costs.
  - (iv) Financial cost is finally shifted towards the consumer. The beneficiary is not the burden taker of the subsidy.
  - (v) Support is given to continue inefficient industries.
  - (vi) Corruptions may occur in the distribution of subsidies.
  - (vii) Problems in administration are incurred.
- (04 Marks maximum)
- (d) The government may attempt to correct the failure of markets resulting from economic inequality through.
- (i) Transfer payments.
  - (ii) Taxation (Progressive Taxes)
  - (iii) The supply of sufficient amount of merit goods. (Eg: Educational and health facilities)
  - (iv) Intervention in the market to control the price.
  - (v) Introducing new rules and regulations.
- (03 Marks for any points)
- (a) Progressive tax = Personal income tax  
Company income tax

Regressive tax = Local production taxes such as tax on alcohol, tobacco, petrol...etc.  
This tax is imposed on each unit, Eg: Rs.5/- on each petrol litre.

Proportionate tax= Value Added Tax (VAT)

Taxes on Imports

In proportionate taxation, a certain percentage of tax is imposed regardless

the basis of taxation. Eg: 10%, 20%, etc.

(03 Marks)

- (b) The major sources of government tax revenue in Sri Lanka at present can be mentioned as:
- Value Added Tax
  - Production Tax
  - Income Tax
  - Import Tax

(04 Marks)

- (C) The contribution of each major tax source to total tax revenue in Sri Lanka in recent years is described below:

Source of Tax	% of Total revenue in 2003	% of Total Government in 2003	% of G.D.P. in 2003	% of Total revenue in 2004	% of Total Govt. in 2004	% of G.D.P. in 2004
Income Tax	17.0	14.2	2.2	14.7	13.3	2.0
Tax on VAT	42.0	35.2	5.5	42.7	38.6	5.9
Tax on Production	22.0	18.4	2.9	23.4	21.1	32.0
Tax on Imports	14.8	12.4	1.9	14.6	13.3	2.0

- (d) The reasons for the lower ratio of tax revenue to GDP in Sri Lanka.

- A large domain of the economy has been released from taxation.
- Tax evasion
- Larger tax relieves provided by the government
- Inefficient tax policies

(04 Marks)

#### 2006-ECONOMICS - II / Part -I

(1) iii	(5) i	(9) iv	(13) i	(17) v
(2) i	(6) ii	(10) iv	(14) ii	(18) v
(3) ii	(7) iv	(11) iv	(15) i	(19) ii
(4) i	(8) i	(12) iii	(16) iii	(20) ii

#### 2006 – ECONOMICS - II / Part -II

##### SUB SECTION -A

- (1) (a) Deposit multiplier =  $1/r$ ,  $r_2$  = reserve ratio

$$1/r = \left\{ \frac{1}{10\%} = \frac{1}{10} \times 100 \right\} = 10$$

$$\therefore r = 10$$

(03 marks)

- (b) (i) Once the control bank increased the reserve ratio to 25%, then the assets and the liabilities in the banking system can be adjusted as given in the following balance sheet:

(reserve rate 25%)  
(reserve rate 10%)

Balance Sheet		Balance Sheet	
Liabilities	Assets	Liabilities	Assets
Rs. Billion	Rs. Billion	Rs. billion	Rs. billion
deposits	100	reserves	10
		loans	90
		-----	-----
			100
			=====
	100		
	=====		40
			40
			=====

When the reserve rate was increased up to 25%,  $\frac{1}{25\%} = 1 \times \frac{100}{25} = 4$

Since the banking system has 10 billion rupees worth of currency in bank vaults, the creatable deposit is 40 billion rupees. Therefore, the reserve is 10 billion rupees while the loan is 30 billion rupees.

#### The new level of bank assets

Reserve capital (Rs, billion)	10	(01 mark)
Loans	30	(01 mark)
Total Assets	40	(01 mark)

#### The new level of liabilities

Total deposits (Rs. billion)	40	(01 mark)
------------------------------	----	-----------

- (ii) The new level of money supply = 50 billion rupees  
(currency held by the general public + deposits =  $10+40 = 50$ ) (02 marks)

- (C) If the reserve ratio was 5%, the following changes could be seen in the banking system.

Bank Balance Sheet (reserve rate 10%)		Bank Balance Sheet (reserve rate 5%)	
Liabilities	Assets	Liabilities	Assets
Rs. Billion	Rs. Billion	Rs. billion	Rs. billion
Deposits 100	reserves 10	Deposits 200	reserves 10
	loans 90		loans 190
-----	-----	-----	-----
100	100	200	200
=====	=====	=====	=====

Once the reserve was reduced to 5% the new deposit multiplier =  $K = 1/5\%$   
 $K = 1 \times 100/5 = 20$

Since the reserve is 10 billion rupees, the creatable deposit is 200 billion rupees. ( $10 \times 20 = 200$ )

#### The new level of bank assets

Reserves	10	billion rupees	(01 mark)
Loans	190	billion rupees	(01 mark)
Total Assets	200	billion rupees	(01 mark)

The new level of bank liabilities = 200 billion rupees.  
The new level of money supply when the reserve ratio is 5% = 210 billion rupees.  
currency held by the general public + deposits

$$= 10 + 200$$

$$= 210 \text{ billion rupees}$$

- (02) (a) The main items of liquid assets of the licensed Commercial Banks in Sri Lanka  
 (i) Cash in hand  
 (ii) Receivable balance from the Central Bank  
 (iii) Foreign currency in hand  
 (iv) Treasury bills  
 (v) Treasury bonds (maximum 05 marks)

- (b) The main channels of monetary policy transmission:

- (i) Interest rate mechanism
- (ii) Credit supply
- (iii) Changes in the price of assets
- (iv) Exchange rate mechanism
- (v) Expectations. (maximum 05 marks)

- (c) The factors which have led to the growth in the broad money supply in Sri Lanka in 2004.
- (i) Total credit that was supplied by the commercial banks to the private sector contributed to 84% of financial expansion in the economy.
  - (ii) Credit offered by the central bank to the government has been increased.
  - (iii) Increased amount of credit supplied to the government corporations
  - (iv) Net foreign assets in commercial banks were increased.
  - (v) As a result of the above factors, net domestic assets were increased contributing 98% to the money supply.

(03) (i) The opportunity cost of the production of wheat (05 marks)

Country	The opportunity cost of producing one unit of wheat in the units of cloth	
USA	$\frac{2}{6} = 0.33$	(02 marks)

Canada	$\frac{1}{5} = 0.20$	(02 marks)
--------	----------------------	------------

- (ii) Wheat = Canada  
Cloth = Canada (02 marks)  
(iii) The country which has a comparative advantage over the production of wheat or cloth should be understood by calculating the opportunity cost of each.

	USA	Canada
The opportunity cost of producing one unit of wheat in the units of cloth	$\frac{2}{6} = 0.33$	$\frac{1}{5} = 0.2$
The opportunity cost of producing one unit of cloth in the units of wheat	$\frac{6}{2} = 0.30$	$\frac{5}{1} = 5.0$

Therefore, Canada has the comparative advantage over the production of wheat whereas USA holds the comparative advantage for cloth production. (02 marks)

- (iv) Specialization of cloth production is held by USA : (01 mark)  
Specialization of wheat production is held by Canada (01 mark)

(b) Arrangements for the globalisation can be given as following:

- (i) Free trade between the countries is promoted thus creating a higher standard of the economy.
- (ii) Third world countries that largely depend on the exports based economic growth strategies are benefited considerably.
- (iii) Public is exposed to the open economy thus enabling them to consume diversified goods and services.
- (iv) New cultural values and attitudes that flow into countries.
- (v) Cost of production is lowered through the importation of raw material and labour from other countries (outsourcing).
- (vi) The quality of the products is increased as a result of the competition between the countries.
- (vii) E-channelling services and new technological developments that enhance the economic growth.

#### Arguments against the globalisation

- (i) Discrimination in the process of distribution of the benefits. As a result, western countries are more benefited than third world countries.
- (ii) Any economic crisis that occurs in one of the countries in the region may spread across the other countries.
- (iii) Third world countries have to keep the doors opened for any economic influence for which they have no control to enter into their countries.
- (iv) Macroeconomic management in the economy has not been reached due to the dependency.
- (v) Losing the job market due to the competition among the employees of many countries.
- (vi) Environmental hazards due to the industrialization.
- (vii) Control and prevention of diseases such as AIDS has become impossible whereas terrorism and illegal drugs have created major threats.
- (viii) Cultural diversity among nations in the world has been badly affected while western dominance is highlighted. (maximum 05 marks for 5 points)

(4) (a) Internal balance refers to the balance between the objectives of full employment and price stability in an economy. (01 mark)

- (b)
- Trading goods
  - Trading services
  - Income
  - Current transfers
- (04 marks)

- (c) The advantages of returning to a fixed exchange rate system.
- (i) Certainty is established among importers and exporters.
  - (ii) Long-term capital flows are positively reinforced, when there is no risk at the exchange rates.
  - (iii) Creditors and debtors have less risk at the settlement of their debts as a result of the change in the exchange rate.
  - (iv) Producers hold the view that the cost of production should be kept low in order to make a competition in the market. Therefore, the government has the ability to keep its inflation at a lower rate. This may be advantaged in long term.
- (02 marks for any 2 points).

The disadvantages of returning to a fixed exchange rate system:

- (i) Since there is no mechanism to have a stable balance of payment automatically in a fixed exchange rate system, a severe economic crisis may occur through long term imbalances.
- (ii) Foreign exchange reserves may be severely affected and the country may move on to an economic crisis.
- (iii) Financial authorities will always have to maintain a huge amount of foreign exchange reserves in order to face the unexpected foreign exchange crisis.
- (iv) Exchange rate needs to be changed so as not to allow foreign exchange reserves to fall. Therefore, the influence on the economy that is made by the flexible exchange system may become worse than that from a small change in an exchange rate.
- (v) When the existing foreign exchange reserves are insufficient to have a fixed exchange rate system the government may move towards new market policies. As a result of that, the existing system of free entry to the market could be affected.

(01 mark for each point, maximum 02 marks).

- (d) Special Drawing Rights are international reserves that have been created in order to compensate the existing international reserves among the member countries of International monetary Fund in 1969. (01 mark)

Special Drawing Rights (SDR) is distributed among the member countries according to the rate at which they have been offered by the International Monetary Fund.

The value of one unit of SDR is determined. It is usually decided in relation to the values of Euro, Yen, Sterling Pounds and US Dollars. It is calculated according to the weighted average of the above exchange rates in the London Market daily. Once in every five years time, the values of the currencies that are used to determine the SDR value are calculated and weighted appropriately.

(maximum 02 marks).

#### Sub Section - B

- (5) (a) Income poverty (absolute poverty)

This refers to receiving an insufficient income that leads to low level of calorie intake in order to survive for a person. The number of people who suffer from poverty is the base in calculating income poverty. It shows a population below the poverty line, which is categorized according to their income or consumption. (02 marks)

Human poverty – this refers to a broader concept than the income poverty. The denial of choices and opportunities for living a meaningful life is considered under human poverty. (01 mark)

The United Nations Development Programme has introduced three dimensions to determine the human poverty.

- (i) Short and unhealthy life span.
- (ii) No access to knowledge
- (iii) Low standard of living according to the Human Poverty Index

(01 Mark)

The trends of Gini Coefficient of household income in Sri Lanka after 1977.

Year	Gini Coefficient
1978 / 1979	0.43
1981 / 1982	0.45
1986 / 1987	0.46
1996 / 1997	0.43
2003 / 2004	0.46

(maximum 04 marks)

- (c) The relationship between the eradication of poverty and economic growth has not been shown much in Sri Lanka as shown by the traditional economic theories.

Sri Lankan situation shows that it is necessary to evaluate the relationships between the contribution of income and economic growth.

Gini coefficient has increased from 0.43 in 1978 / 79 to 0.46 in 2003 / 2004.

Economic growth and the decline in poverty to Sri Lanka is limited to the Western Province.

Agricultural sector which cater to the 34% of the total employment in the country is stagnated, throughout the last two decades.

The countries that have shown a remarkable improvement in the eradication of poverty reflect the need to have a sustainable economic growth.

Each country's economic policy is the deciding factor that determines whether the economic growth contributes to the poverty reduction. Therefore, it is expected to identify and implement appropriate policies in order to increase the full employment and productivity.

Since the labour of the poor is a powerful factor of production that can be used to increase the economic growth the labour resource should be allocated carefully.

(02 marks for each point, maximum 07 marks).

(6) (a) Contributions to the Gross Domestic Product

	1977 %	2004 %	2005 %
(i) Agricultural contribution	26.7	17.9	17.0
(ii) Industrial contribution	22.5	26.5	27.0
(iii) Service sector contribution	50.1	55.7	55.8
(iv) Contribution from the agricultural exports to the export income	79.3	19.0	18.0
(v) Technical sector contribution	14.2	78.0	78.0

(maximum 03 marks)

(b)	Sector of the Economy	Labour productivity per person			
		(Rs. Thousand)	2000	2002	2004
(i) Agriculture		77.1	73.6	69.7	77.4
(ii) Industrial		158.5	168.4	161.7	152.2
(iii) Service		175.0	160.8	169.7	172.4

(maximum 03 marks)

Agricultural sector is at a lower level compared to the other major sectors of the economy.

(01 mark)

The productivity of the service sector is comparatively high.

(01 mark)

- (c) (i) Technological Advances  
As a result of the technological advancement the labour productivity may be increased. Using the equal amount of resources the country can produce a larger output. New products can be introduced to the market, creating a higher demand, higher expenditure and higher growth in the economy. (02 marks)
- (ii) Labour productivity  
Due to the increased amount of resources and the quality of them, an economic growth could be approached. Once the labour productivity is increased, its quality is also increased, producing more with the same amount of resources.  
There is a close relationship between the factor productivity and factor income in a market economy. When the productivity increases the income also increases, thus creating higher savings and investments.  
Once the labour productivity is lowered the income level will be lowered too, leading to a poor economic growth through lower savings and investments. This creates the vicious cycle of poverty. (02 marks)
- (iii) Capital accumulation.  
Labour productivity can be increased through the accumulation of capital. The countries that have allocated more resources for capital formation have reached a better growth in the economy whereas some countries have reached the economic growth by allocating resources to their education and training.  
Lower level of capital accumulation is a reason for lower productivity and a increase in poverty. It may lead to a poor economic growth. (maximum 02 marks)

- (07) (a) The severe obstacles in Sri Lanka's investment climate can be given as follows:  
(i) Macro Economic instability.  
(ii) Political instability.  
(iii) Poor infrastructure facilities.  
(iv) Limited access to financial services and the high cost of it.  
(v) Insufficient skilled labour.  
(vi) Limited market.  
(vii) Rigid policies in the labour market.  
(viii) Political influences.  
(ix) Strict rules and regulations.  
(x) Ethnic conflicts. (maximum 05 marks)
- (b) The factors that have contributed to increase in regional disparity in economic activities in Sri Lanka are given below:  
(i) Lower growth in the agricultural sector  
(ii) Industrial development and free trade zones are limited to the Western Province.  
(iii) Unequal facilities for educational advancements in different provinces.  
(iv) Barriers to enter into the market.  
(v) Very poor infrastructure facilities in the rural sector.  
(vi) Civil conflict in the country throughout two decades.  
(vii) Increasing number of internal migrants. (maximum 05 marks).
- (c) The measures taken by the government to reduce regional disparity in Sri Lanka in recent years.  
(i) Improving the infrastructure facilities in rural areas in order to link the community with the market. Eg: Programs such as Maga Neguma, Gama Neguma, Gemi Diriya.....etc.  
(ii) Implementing programs to uplift the standard in agricultural sub-sections. Eg: Dairy industry, Dahasak Vevu (thousand tanks)Program.  
(iii) Establishing 300 firms in order to provide at least one firm in each provincial division except in Colombo and Gampaha Districts  
(iv) Industrial development in Micro, small and medium scales.  
(v) Establishment of Uva-Wellassa University to expand educational benefits.  
(vi) Provincial development projects.  
Eg: Pubudamu Wellassa.  
Rajarata Navodhaya.  
Senkadagal Pibideema and Ruhunu Development Programme.  
(vii) Millennium Development Goals were integrated with the National Development Plan.  
(viii) Expanding science and technology towards villages. (maximum 05 marks)

- (8) (a) At the Millennium Summit of UNDP that was held in September in 2000, world leaders came to an agreement to reach some objectives within a given period of time in order to eradicate poverty, illiteracy, environmental pollution, discrimination against women and communicable diseases.. (01mark)

There were 8 objectives as follows: (Millennium Goals)

- (i) Eradication of extreme poverty and hunger.
- (ii) Universal primary education.
- (iii) Empowering women
- (iv) Reduction of child mortality rate
- (v) Improving maternal health
- (vi) Preventing HIV –AIDS, Malaria and other communicable diseases.
- (vii) Environmental sustainability.
- (viii) Establishing a global partnership for development.

(1/2 mark for each, maximum 03 marks)

- (b) The relationship between Millennium Development Goals and Human Development.

The process of expanding the people's choice by increasing human skills and abilities is referred to as human development. In the all stages of development it is essential to have access to resources for a long and healthy life span, knowledge and a satisfactory living standard. The progress in these 3 sectors are measured by using human development index (HDI). (02 marks)

The following table shows that many Millennium Development Goals (MDG) are connected to the above three parts of Human Development.

<b>Human Development</b>	<b>Millennium Development Goals</b>
(i) Long and healthy life span	(i) Eradicating extreme poverty and hunger
	(ii) Reduction of child mortality
	(iii) Improving maternal health
	(iv) Preventing serious diseases
	(v) Supply of drinking water
(ii) Providing knowledge	(i) Universal Primary Education
	(ii) Empowering women
(iii) Access to resources for a satisfactory standard of Living	(i) Eradicating poverty
	(ii) Developing a global partnership.

(maximum 03 marks)

- (c) The achievements so far made by the government of Sri Lanka with respect to MDG targets.

	<b>Selected MDG targets</b>	<b>Progress in Sri Lanka</b>
(i)	Eradication of extreme poverty and hunger.	People who earned less than one US Dollar per day rose from 4% in 1990 to 6.6% in 1995.
(ii)	Universal Primary Education.	The total enrolment for the primary education in 2000 / 2001 was 97%.
(iii)	Difference between male and female participation in primary and secondary education	The male / female ratio in primary education in 2000 / 2001 was 0.94 whereas in secondary education it was 1.03.
(iv)	Reduction of child mortality rate	The mortality rate of the children under five years was 23 for every 1000 live births in 1990 that was reduced to 17 per 1000 live births in 2001.
(v)	Reduce the number of people who have no access to clean drinking water by the year 2015.	The number of households with access to clean drinking water has risen from 62% in 1990 to 70% in 2000.
(vi)	Reduce the percentage of people who suffer from hunger by making the number half by the year 2015.	This figure was 26.1 % in 1990/91 and dropped to 2.7% in 2002.