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தமிழ் சிறை குழு (பூசார போல) உதவை, 2006 ஆண்டு

General Certificate of Education (Adv. Level) Examination April 2006

କୁର୍ରିକ ମିଟ୍ରାଜ I (ଇଂଗ୍ଲିଶ)

பொருளியல் I (பகுதி I)

Economics I (Part I)

ରାଜ୍ୟ ଉତ୍ସବ

ஒரு மனித்துயால்

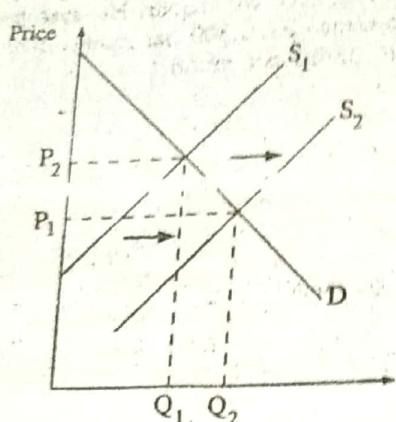
One hour

Index No. :

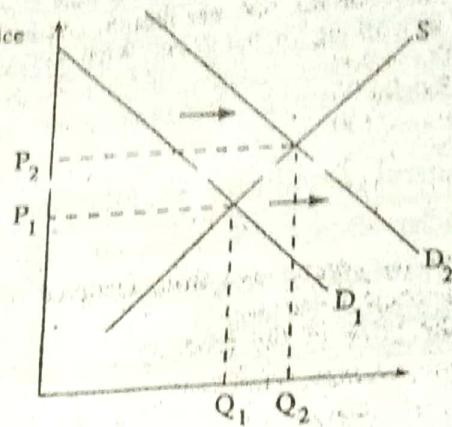
Note: * There are 20 questions in this Part and all questions are compulsory.
* Each question carries 02 marks and the total marks for this Part is 40.
* Each multiple-choice question has only one correct answer. Identify and underline the correct answer.
* All questions in Part I must be answered on this paper itself.
* After answering both Part I and Part II, tie the two sets of answer scripts together and hand over to the Supervisor.

1. One of the differences between a free market economy and a centrally planned economy is that in the former,
 - (i) some resources are privately owned and some are state owned.
 - (ii) resources are only scarce in a free market economy.
 - (iii) all resources are privately owned and allocated by market forces.
 - (iv) most resources are used to produce capital goods.
 - (v) resources are allocated by the market forces and are therefore no longer scarce.
 2. 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 markets.
 - (ii) the distribution of production to members of the community based on social customs.
 - (iii) government distributing goods and services to low-income earners.
 - (iv) government centrally setting wages and prices as part of an economic plan.
 - (v) the bargaining process between employers and employees.
 3. The problem of scarcity
 - (i) exists only in economies which rely on a mixed economy.
 - (ii) could be eliminated if we could force prices to fall.
 - (iii) means there are shortages of some goods.
 - (iv) exists because human wants cannot be satisfied with available resources.
 - (v) exists now but will be eliminated with economic growth.
 4. Assume an economy producing private goods and public goods. When the economy is operating on its production possibility frontier, an increase in the production of the public goods will
 - (i) have no effect on the supply of private goods.
 - (ii) increase the opportunity cost of private goods.
 - (iii) increase total output because public goods are non rival.
 - (iv) mean a reduction in the production of private goods.
 - (v) shift the production possibility frontier to the left.

5. The diagrams below show how shift in the supply of good X results in a shift in the demand for good Y.



Quantity demanded and supplied of good X



Quantity demanded and supplied of good Y

Which of the following pairs is most likely to be represented by good X and good Y?

- (i) tea and coffee
- (ii) bus travel and rail travel
- (iii) rice and wheat flour
- (iv) sugar and jaggery
- (v) tires and tubes

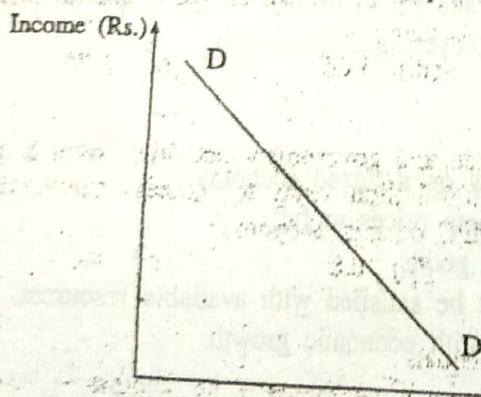
6. The table below shows a household's demand of five different goods A, B, C, D and E at two separate income levels.

Income	Units of goods demanded				
	A	B	C	D	E
Rs. 10,000	200	200	200	200	200
Rs. 12,000	200	240	260	280	300

Over the above range of income, for which good does the household have an income elasticity of demand of unity?

- (i) A
- (ii) B
- (iii) C
- (iv) D
- (v) E

7. The diagram below relates the quantity demanded of product X to income.



Quantity demanded of product X

The diagram suggests that product X is

- (i) an inferior good
- (ii) a necessity
- (iii) a normal good.
- (iv) a luxury.
- (v) a complementary good.

8. A farmer (bee keeper) sells 10 bottles of honey each month at a price of Rs. 400 per bottle. He pays Rs. 200 each month for bottles and other materials and Rs. 1,000 for labour. He uses his own land, which he could rent for Rs. 500 per month, and he could have earned Rs. 1,300 per month if he worked elsewhere instead of working in his farm. What are his economic profits per month?
- Rs. 4,000
 - Rs. 2,800
 - Rs. 2,300
 - Rs. 1,300
 - Rs. 1,000
9. In a perfectly competitive firm, marginal revenue always equals,
- average total cost.
 - the price of the product
 - the average fixed cost.
 - total revenue.
 - the average variable cost
10. The following data represent market demand and supply schedules for commodity X over a given period of time.
- | Price per Unit (Rs.) | Quantity Demanded (Units) | Quantity Supplied (Units) |
|----------------------|---------------------------|---------------------------|
| 80 | 500 | 900 |
| 70 | 600 | 800 |
| 60 | 700 | 700 |
| 50 | 800 | 600 |
| 40 | 900 | 500 |
- If the government now introduces a subsidy of Rs. 20 per unit to be paid to the producers of commodity X, the new equilibrium price will be
- Rs. 80
 - Rs. 70
 - Rs. 60
 - Rs. 50
 - Rs. 40
11. If the aggregate consumption function is given to be $C = 80 + 0.7Y$ and the national income (Y) = 1,000 then the level of savings in a two-sector economy equals
- 220
 - 300
 - 700
 - 780
 - 920
12. If real GDP in the economy is Rs. 8,000 billion in the current year and nominal GDP is Rs. 6,000 billion in the same year, then the GDP deflator equals
- 0.75
 - 1.33
 - 1.66
 - 1.75
 - 2.00
13. In a simple economy without foreign trade and government activities, over a one year period, an increase in new investment expenditure of Rs. 200 billion leads to increase the equilibrium national income by Rs. 800 billion. What is the value of MPC of this economy?
- 0.25
 - 0.75
 - 0.8
 - 4.0
 - 7.5
14. Net Domestic Product at market prices equals
- consumption expenditure + government purchases + net exports + investment expenditure
 - consumption expenditure + government purchases + exports + personal taxes
 - indirect business taxes + personal income + net exports
 - all factor incomes + indirect taxes - subsidies
 - all factor incomes - depreciation

15. Suppose that a Rs. 6,000 increase in income is accompanied by a Rs. 4,500 increase in consumption. The marginal propensity to save is
 (i) 1.33 (ii) 0.75 (iii) 0.25 (iv) 0.20 (v) 0.15

16. The table below shows benefits and costs of a newly established TV station.
 (in million rupees)

Private benefits	140	Private costs	120
External benefits	30	External costs	40

From the table it can be concluded that

- (i) the social costs are Rs. 40 million.
- (ii) the social costs are less than the private costs.
- (iii) the social costs are greater than social benefits.
- (iv) the social costs are less than the social benefits.
- (v) social benefits are Rs. 30 million.

17. A difference between a merit good and a public good is that

- (i) a merit good is always provided by the private sector whilst a public good is always provided by the public sector.
- (ii) a merit good has a cost attached to it whilst public good is provided without cost to anybody.
- (iii) a merit good is in limited supply whilst supply of public good is infinite.
- (iv) consumption of a merit good reduces the amount available for others whilst an individual's consumption of public goods leaves the amount available for others unaffected.
- (v) merit goods cause market failures whilst public goods do not cause market failures.

18. A proportional tax means that each tax payer pays

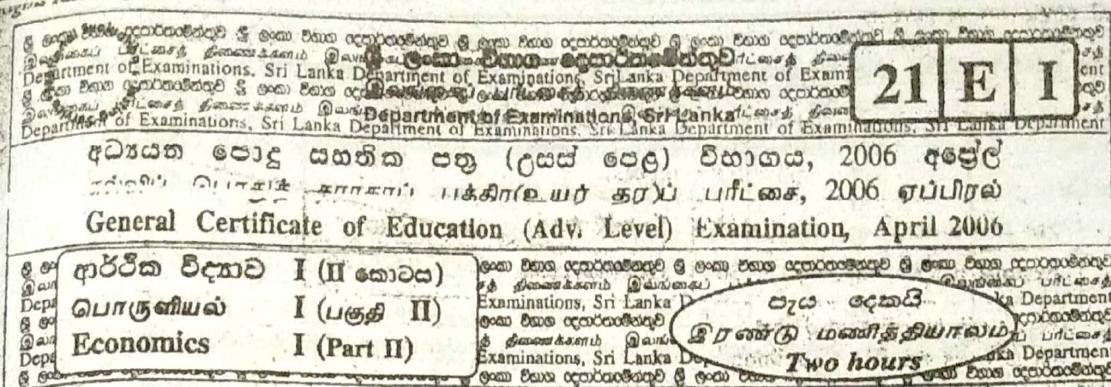
- (i) the same amount of tax.
- (ii) the same percentage of his or her income to taxes.
- (iii) a higher tax rate as income increases.
- (iv) a lower tax rate as income increases.
- (v) a tax proportional to his or her share of the public goods consumed.

19. As a percentage of GDP, the government current and capital expenditure in Sri Lanka in 2004 were respectively

- (i) 16.5% and 8.4%
- (ii) 17% and 6.5%
- (iii) 18.2% and 5%
- (iv) 19% and 4.9%
- (v) 19.2% and 4.1%

20. The largest share of government current expenditure in Sri Lanka in recent years has been for

- (i) interest payment.
- (ii) defence expenditure.
- (iii) consumer subsidies.
- (iv) education.
- (v) salaries.



Instructions: Answer four questions only selecting two questions from Sub-section A and two questions from Sub-section B.

Sub-section A

(Select two questions from this Section.)

1.

 - Outline the nature of resource ownership in (i) a planned economy and in (ii) a market economy. (02 marks)
 - Determine which category of resources each of the following items belongs to
 - a taxi cab
 - computer software
 - one hour of legal counsel
 - a phosphate deposit
 - a stock of raw materials(05 marks)
 - What is meant by the term 'division of labour'. Explain how division of labour may reduce costs of production and increase competitiveness. (08 marks)

2.

 - Draw a production possibilities curve reflecting increasing opportunity costs for an economy producing two goods, public sector goods (vertical axis) and private sector goods (horizontal axis). The economy is currently producing at point A which is located on the mid-point of the production possibilities curve and show it on the diagram. (02 marks)
 - Mark the following points on your diagram :
 - Point B which shows production following the election of a new government which privatizes many public sector services but maintains full and efficient employment. (01 mark)
 - Point C where unemployment is present in the economy. (01 mark)
 - Point D where the economy is in a recession. (01 mark)
 - Point E where the state takes over production of all goods and services in the economy. (01 mark)
 - Now draw two new production possibilities curves on the same diagram to show the following;
 - The position after a devastating war has hit the economy. (02 marks)
 - There is an increase in productivity by 50% in the public sector goods and by 100% in the private sector goods. (02 marks)
 - "If society decides to use its' resources fully, then future generations will be worse off because they will not be able to use these resources due to, for example, environmental damage." If this assertion is true, full employment of resources may not be a good thing. Comment on the validity of this assertion. (05 marks)

3. The following table shows market demand and supply schedules of commodity X.

Price per Unit (Rs.)	Quantity Demanded	Quantity Supplied
4	16	4
6	12	6
8	8	8
10	4	10
12	0	12

- (a) Draw the market demand and supply curves from the data given in the above table, and estimate the equilibrium price in the market. (03)
- (b) Assume that the government now imposes a value added tax of 50%. Show the effect of this on the diagram. (02)
- (c) What is the new equilibrium price and quantity? (02)
- (d) What is the tax per unit? (02)
- (e) What is the incidence of tax per unit on (i) the consumers and (ii) the producers? (02)
- (f) What is the total government revenue from the tax? (02)
- (g) By how much will the before tax revenue of producers change? (02)
4. (a) Explain how the laws of 'diminishing returns' and 'returns to scale' affect a firm's cost of production. (04)
- (b) Describe the characteristics of (a) perfect competition and (b) oligopoly. (04)
- (c) Suppose a perfectly competitive firm sells 300 eggs at Rs. 10 each per week. At this output, the firm's total variable cost is Rs. 1,800 and its total fixed cost is Rs. 600. From this information, calculate the firm's profit per unit and total profit. (04)
- (d) Explain why firms that are making zero economic profits are likely to continue in business. (03)

Sub-Section B

(Select two questions from this section.)

5. The following are some of the national income accounts for a hypothetical economy. All figures are in Rs. billions.

Investment (net)	40
net foreign factor income	- 10
Imports	120
Gross corporate profits	90
Personal savings	60
Government transfer payments	100
Disposable income	460
Depreciation	60
Government spending on goods and services	200
Dividends paid out by corporations	40
Net exports	- 20
Net indirect taxes	110
Corporate profit taxes	30
Other income not paid out	10
Personal income tax	80

From this information calculate the value of

- (a) Gross Domestic Product (GDP)
- (b) National Income
- (c) Personal Income

(02 marks)

6. (a) Consider an economy with no government, imports, or exports and with fixed prices and interest rates. The aggregate consumption function of the economy is $C = 150 + 0.60 Y_d$ and investment (I) = 50. (All figures are in Rs. billions).
- (i) What is the equilibrium level of aggregate output of this economy? (04 marks)
- (ii) What is the value of the investment multiplier? (02 marks)
- (b) Suppose a government sector is now added to the original economy described in part (a). The government spends 100 on goods and services and receives taxes of 100.
- (i) What is the equilibrium level of aggregate output now? (04 marks)
- (ii) Full employment output in this economy is 800. Suppose government spending is raised to attain this level of output, but taxes are not changed. What level of government spending will result in an equilibrium output of 800? (05 marks)
7. (a) Give one example for each of the following externalities :
- (i) Negative externality in production (04 marks)
- (ii) Positive externality in production (04 marks)
- (iii) Negative externality in consumption (04 marks)
- (iv) Positive externality in consumption (04 marks)
- (b) Under what conditions do unregulated markets fail to allocate resources efficiently? (04 marks)
- (c) What are the economic arguments against producer subsidies? (04 marks)
- (d) How does the government attempt to correct the failure of markets resulting from economic inequality? (03 marks)
8. (a) There are progressivity, proportionality and regressivity characteristics of the major taxes of the central government of Sri Lanka. Give three examples of taxes to represent each of these characteristics. (03 marks)
- (b) Identify the major sources of government tax revenue in Sri Lanka at present. (04 marks)
- (c) What is the contribution of each major tax source to total tax revenue in Sri Lanka in recent years? (04 marks)
- (d) Examine the reasons why the ratio of tax revenue to GDP remains at a low level in Sri Lanka. (04 marks)

21 E II

දෙශය තේරු සහති මග (උද්‍ය පාඨ) තොටෙ, 2006 අප්‍රේල්
සම්ම් පොතක පාඨකාර පිටපත නිවාස මැයි 2006 ප්‍රාග්ධන

General Certificate of Education (Adv. Level) Examination, April 2006

ආර්ථික ජීවිත II (පාඨකාර)
උද්‍ය පොතක පාඨකාර II (ජ්‍යෙෂ්ඨ I)
Economics II (Part I)

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ප්‍රාග්ධනය
One hour

Index No. :

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1. Which one of the following statements accurately defines monetary policy? It is a policy concerned with
 - (i) the direct control of prices and incomes.
 - (ii) the control of taxation and government spending.
 - (iii) the control of interest rates and money supply.
 - (iv) managing the government budget.
 - (v) foreign exchange rate.
2. Which of the following is most likely to have led to an increase in money supply in Sri Lanka in recent years?
 - (i) An increase in bank lending
 - (ii) An increase in exports
 - (iii) An increase in interest rates
 - (iv) An increase in oil prices
 - (v) An appreciation of the external value of rupee
3. If the statutory reserve ratio were raised,
 - (i) banks would have to increase their loans.
 - (ii) the money supply would fall.
 - (iii) the money supply would rise.
 - (iv) the discount rate would rise.
 - (v) banks could increase their demand deposit liabilities.
4. When the Central Bank purchases government securities, it leads to
 - (i) an increase in reserve money (high powered money).
 - (ii) a decrease in reserve money (high powered money).
 - (iii) a decrease in demand deposits.
 - (iv) an increase in interest rates.
 - (v) a decrease in the money supply.

5. Inflation is a
 (i) sustained rise in the general price level.
 (ii) sustained fall in the general price level.
 (iii) rate of change in the consumer price index.
 (iv) rate of increase in the consumer price index.
 (v) rate of change in the purchasing power of money.
6. Assume that the nominal GDP is Rs. 50 billion and the quantity of money is Rs. 20 billion, then the velocity of money is
 (i) 0.4 (ii) 2.5 (iii) 3.0 (iv) 4.0 (v) 7.0
- 7.
-
- | Country | Rice (Million units) | Cloth (Million units) |
|-----------|----------------------|-----------------------|
| Japan (J) | 0 | 800 |
| Japan (J) | 300 | 0 |
| Korea (K) | 0 | 200 |
| Korea (K) | 200 | 0 |
- The above diagram illustrates the hypothetical production possibility frontiers of two countries, Japan (JJ) and Korea (KK). Assuming no transport costs or trade barriers
- (i) Korea has an absolute advantage in the production of both cloth and rice.
 - (ii) Neither country could benefit from trade.
 - (iii) Japan has a comparative advantage in both cloth and rice.
 - (iv) Both countries could benefit from trade.
 - (v) Japan will export rice to Korea.
8. Sri Lanka's most important export market at present is
- (i) United States of America.
 - (ii) Japan.
 - (iii) India.
 - (iv) United Kingdom.
 - (v) Germany.
9. The terms of trade is said to worsen for Sri Lanka when
- (i) its volume of exports increase more than its volume of imports.
 - (ii) its volume of imports increases more than its volume of exports.
 - (iii) its export prices increase more than its import prices.
 - (iv) its import prices increase more than its export prices.
 - (v) its export earnings increase more than its import spending.
10. If Canada has an absolute advantage over Cuba in the production of wheat, it means that
- (i) Canada can produce more wheat than Cuba.
 - (ii) the price of wheat is higher in Canada than it is in Cuba.
 - (iii) the price of wheat is higher in Cuba than it is in Canada.
 - (iv) fewer resources are used to produce wheat in Canada than in Cuba.
 - (v) the opportunity cost of producing wheat in Canada is lower than that in Cuba.

11. If there is an appreciation in the Sri Lankan rupee relative to the Japanese Yen, then:
- Sri Lankans would need more rupees to buy Japanese goods.
 - Sri Lankans get fewer Yen per rupee on the foreign exchange market.
 - Sri Lankan goods become cheaper for the Japanese to buy than before.
 - Sri Lankan goods become more expensive for the Japanese to buy than before.
 - the supply curve of the yen will shift to the right.
12. A developing economy is experiencing a short term collapse in the external value of its currency. From the following institutions is it most likely to receive assistance?
- The World Bank (WB)
 - The World Trade Organisation (WTO)
 - The International Monetary Fund (IMF)
 - The Organisation for Economic Cooperation and Development (OECD)
 - United Nations Development Programme (UNDP)
13. Of the following, all but one are included in the current account of the nation's balance of payments. Identify it.
- Foreign exchange reserves
 - Unilateral transfers
 - Export of services
 - Income receipts on investments
 - Income payments on investments
14. The table below shows selected data from a balance of payments account of a country.
- | Balance of payments items | Rs. billion |
|---------------------------|-------------|
| Exports | 540 |
| Imports | 620 |
| Net services | 80 |
| Net income | - 200 |
| Net current transfers | 140 |
| Overall balance | 110 |
- According to the information in the table, which of the following statements is correct?
- There is a surplus of Rs. 80 billion on merchandise trade.
 - There is a surplus of Rs. 170 billion on the capital and financial account.
 - There is a deficit of Rs. 120 billion on the current account.
 - There is a deficit of Rs. 170 billion on the capital and financial account.
 - There is a deficit of Rs. 120 billion on merchandise trade.
15. Economic dualism in a developing country refers to
- the lack of integration between traditional and modern sectors.
 - the enormous gap between rich and poor.
 - the disparity between investments in consumption goods and capital goods production.
 - the disparity between consumption and investment.
 - the difference between export-oriented and import substituting industrialization.
16. What is the highest rate of real GDP growth Sri Lanka has been able to achieve since 1950?
- 9.6%
 - 9.0%
 - 8.2%
 - 6.9%
 - 6.7%

17. The table below shows population and labour force data for a hypothetical economy.

Population (million)	Population aged 10 years and above (million)	Employed persons (million)	Unemployed persons (million)
50	25	15	5

- (i) the participation rate is 50% and the unemployment rate is 20%
- (ii) the participation rate is 40% and the unemployment rate is 20%
- (iii) the participation rate is 60% and the unemployment rate is 25%
- (iv) the participation rate is 60% and the unemployment rate is 20%
- (v) the participation rate is 80% and the unemployment rate is 25%

18. "There is wide disparity in regional development in Sri Lanka." For example, the share of Western province alone of the country's GDP in 2003 was,

- (i) 35%
- (ii) 38%
- (iii) 40%
- (iv) 46%
- (v) 49%

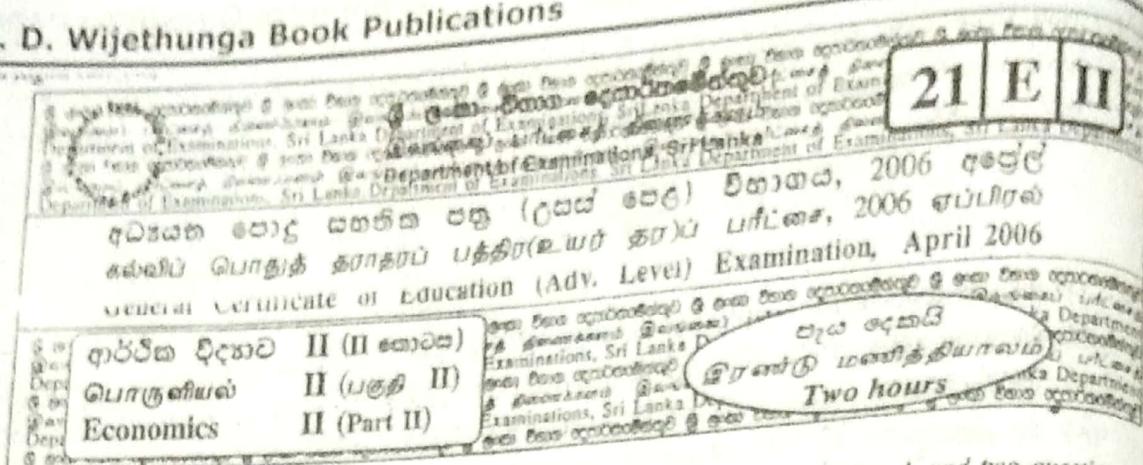
19. With respect to the attainment of Millennium Development Goals, Sri Lanka has almost achieved the numerical goal relating to

- (i) eradication of extreme poverty and hunger.
- (ii) universal primary education.
- (iii) reduction of child mortality.
- (iv) environmental sustainability.
- (v) global partnership for development.

20. Which one of the following describes an effect of globalization?

- (i) There has been a greater divergence in world economic systems.
- (ii) There has been widening income gap between developing and developed economies
- (iii) There has been an increasing trend towards regulation of labour, financial and product markets.
- (iv) The newly industrialized economies of the world have enjoyed economic growth, but no increase in international trade.
- (v) There has been a declining trend in international labour migration.

21 E II



Instructions: Answer four questions only selecting two questions from Sub-section A and two questions from Sub-section B.

Sub-section A

(Select two questions from this Section.)

1. Suppose that money supply in a hypothetical economy is Rs. 110 billion. Of this, Rs. 10 billion is currency held by the general public and Rs. 100 billion is bank deposits. The Central Bank has decreed that commercial banks must keep 10% of their total deposit liabilities in the form of currency. So the banking system has Rs. 10 billion worth of currency in bank vaults and Rs. 90 billion worth of loans on its books.
 - (a) What is the value of the deposit multiplier? (03 marks)
 - (b) The Central Bank increases the reserve ratio to 25%. Assuming that there is no change in the amount of currency held by the general public, and the commercial banks do not maintain any excess reserves, what will be the
 - (i) new level of bank assets and liabilities? (04 marks)
 - (ii) the new level of money supply? (02 marks)
 - (c) What would the answers for part (b) if the reserve ratio were 5%? (06 marks)
2. (a) List the main items of liquid assets of the Licensed Commercial Banks in Sri Lanka. (05 marks)

(b) Identify the main channels of monetary policy transmission. (05 marks)

(c) "The broad measure of money supply (M2b) increased by 19.6% in Sri Lanka in 2004." Outline the factors which have led to this growth in the broad money supply. (05 marks)
3. (a) Consider the following information concerning the production of wheat and cloth in the USA and Canada.

Labour Hours Required to Produce One Unit

Commodity	USA	Canada
Wheat	2	1
Cloth	6	5

- (i) What is the opportunity cost of wheat in the USA and Canada? (04 marks)
- (ii) Which country should specialize in the production of wheat and in cloth? (02 marks)
- (iii) Which country has a comparative advantage in wheat production and in cloth production? (02 marks)
- (iv) Which country has an absolute advantage in wheat production and in cloth production? (02 marks)
- (b) "Supporters of globalization suggest that developed and developing economies can benefit from globalization." Do you agree? Give reasons for your answer. (05 marks)

4. (a) Distinguish between external balance and internal balance. (04 marks)
 (b) Outline the main components of the current account of the balance of payments. (04 marks)
 (c) What might be the advantages and disadvantages of returning to a fixed exchange rate system? (04 marks)
 (d) What are Special Drawing Rights? How is their value determined? (03 marks)
- (Select two questions from this section.)
5. (a) Distinguish between the concepts of 'income poverty' and 'human poverty'. (04 marks)
 (b) Examine the trends of Gini coefficient of household income in Sri Lanka after 1977. (04 marks)
 (c) "Economic growth is said to be a necessary but not sufficient condition to eradicate absolute poverty and reduce inequality." Examine the reasoning behind this argument in the light of Sri Lanka's experience. (07 marks)
6. (a) Outline the major changes that have taken place in the structure of production and exports in Sri Lanka after 1977 economic policy reforms. (04 marks)
 (b) Compare the changes in labour productivity of major economic sectors in Sri Lanka in recent years. (05 marks)
 (c) Explain how each of the following relates to economic growth :
 (i) technological advance
 (ii) labour productivity
 (iii) capital accumulation (06 marks)
7. (a) What are the most severe obstacles in Sri Lanka's investment climate? (05 marks)
 (b) Identify the factors that have contributed to increase in regional disparity in economic activities in Sri Lanka. (05 marks)
 (c) Outline the measures taken by the government to reduce regional disparity in Sri Lanka in recent years. (05 marks)
8. (a) What is meant by the Millennium Development Goals? (04 marks)
 (b) What is the relationship between Millennium Development Goals and Human Development? (05 marks)
 (c) Evaluate the achievements so far made by the government of Sri Lanka with respect to MDG targets. (06 marks)