

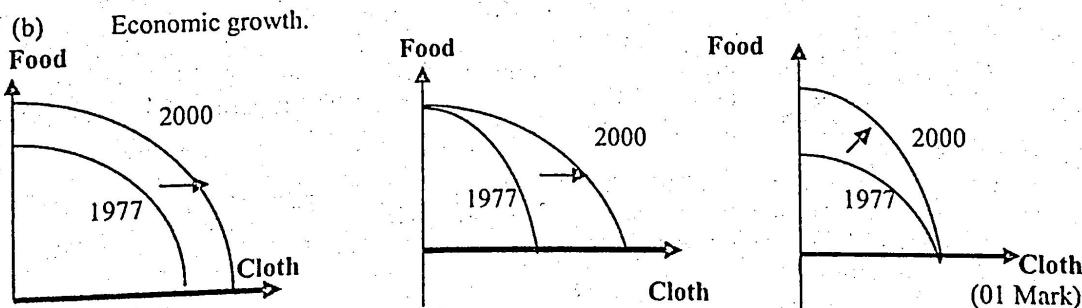
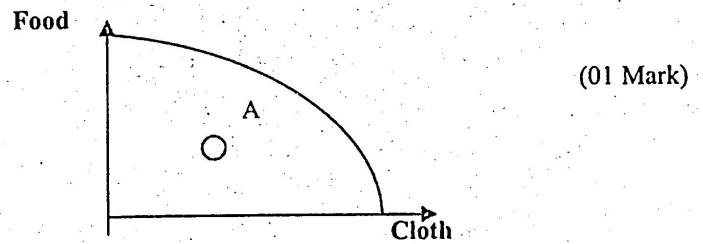
2007-ECONOMICS - I / Part -I

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

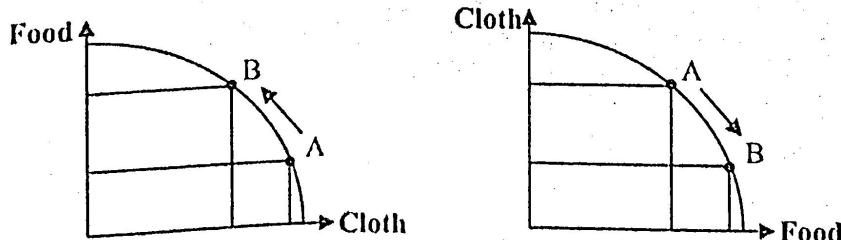
2007- ECONOMICS - I / Part -II

- (1) (i) The three basic economic questions can be given as follows:
- (a) What in what quantity to produce?
 - (c) How to produce?
 - (d) For whom to produce? (03 Marks)
- (2) - What to produce is determined by the price in a market economy, producers are able to know how to maximize their profit by producing certain goods. Price signals provide knowledge on what to be produced.
- Centralized authority determines what to produce in a planned economy. After the production domains are determined, then how much or what quantity to be produced will be decided. (1 Mark)
- How to produce in a market economy is determined by the factor market. Price of a factor that is substantially available has a lower price while a comparatively scarce factor has a higher price. Based on the factor prices, producers choose techniques to produce with low production costs.
- In a planned economy the centralized authority organizes production. Production institutions are government enterprises. The techniques are determined through the commands given by the centralized authority. (01 Mark)
- For whom to produce is determined in a market economy through the factor market. In a market economy peoples' income is determined by the price of the factor and the quantity of factors that are exchanged at that price. In a planned economy, factor prices are incentives to the market forces and the centralized authority makes the decision about the prices. (01 Mark)

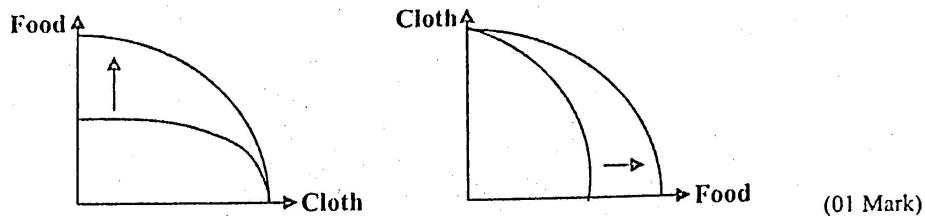
- (iii) (a) The economy is experiencing a recession.



- (c) Society decides it wants more food and less cloth.



(d) Technological advance in food production sector.



(01 Mark)

- (iv). Most production possibilities curves are bowed outward to the origin showing an increasing opportunity cost. When the production of one product is increased in equal amount the amount being sacrificed of the other product is also increased. (01 Mark)

Factors of production cannot be reformed for alternative use. (01 Mark)

A factor production may not show the same efficiency at the use of an alternative though it is applied so. (01 Mark)

A factor of production may be useful for the production of a particular good but not for the production of any other product.

Eg: In order to increase the food production, skilled labour may be used at the beginning. If the Food production was to be increased; some of the labourers would be released from cloth production and be employed for food production. This increases the opportunity cost of food production. (01 Mark)

- (2) (i) The role of prices in market economies can be given as follows:

(a) Providing relevant information that is necessary to make decisions to consumers and producers through price signals.

(b) A market can be functioned efficiently only if the buyers and sellers react positively to the price signals. (01 Mark)

(c) Scarce resources are allocated among alternative uses.

- (ii) - Queues.
- Rations
- Black market activities
- Stock keeping. (02 Marks)

- (iii) - Price of the good being considered
- Prices of the substitutes and complements
- Income of the people
- Tastes of the people
- Expectations of people. (04 Marks)

- (iv) - Income effect.
- Substitution effect (01 Mark)

If the factors affecting demand, including money income, remain constant while price at the product increases, the real income of the consumer may decrease. When the real income decreases, the demand of the consumer for all the normal goods will also decrease. (02 Marks)

- If all the other factors affecting demand remain unchanged while the price of the good being considered increases, the relative price will also increase. When the relative cost increases, consumers will tend to buy a substitute instead of the original product thus creating a lower demand for the original product. (02 Marks)

- (3) (i) The characteristics of a perfectly competitive market are given below.

- (a) A large number of buyers and sellers in the market.
(b) Homogeneous (identical) products can be seen.
(c) No barriers to entry and exit.
(d) Perfect factor mobility. (03 Marks)

- (ii) (a) Soft drinks-----Oligopoly
(b) Railway-----Monopoly
(c) TV broadcasting-----Oligopoly
(d) Grocery stores-----Monopolistic competition
(e) Paddy cultivation -----Perfect competition
(f) Barber shops-----Monopolistic competition.

(03 Marks)

- (iii) (a) The total economic profit when the market price is Rs.20/- per unit is Rs.150/-,

Calculation – method - 1

Economic profit = Total Revenue - Total Cost

Total Revenue = Price X Quantity = $20 \times 30 = 600$

Total Cost = Average Total Cost X Quantity = $15 \times 30 = 450$

Therefore Profit = $600 - 450 = \text{Rs.}150$

Method - II

Economic Profit = Profit from a unit sold X Quantity sold

Profit from a unit = Price of a unit-Average cost of a unit=20-15=5

Total Economic Profit = Profit of a unit X Quantity= 5x30=Rs.150

(03 Marks)

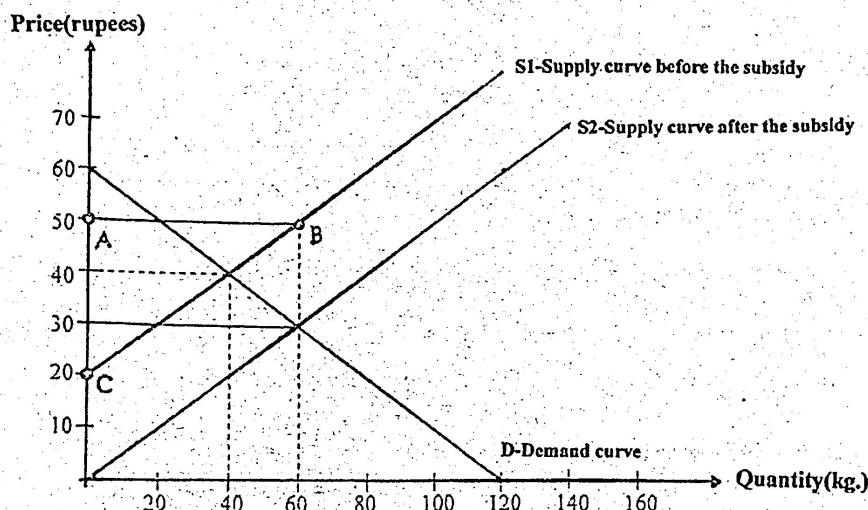
- (b) The lowest price at which a firm produces an output in the short-run is Rs.5/= (02 Marks)

Whether surviving in the industry or not in the short run is decided on the revenue being earned. If the revenue of the firm is sufficient at least to cover up the total variable cost, the business exists. If the business is closed down, it has to bear the fixed cost fully. Therefore if the revenue gained in short run is a little more than the total variable cost of the firm, the business can survive. Therefore the lowest price at which a firm expects to produce an output in the short-run equals to the price denoted by the lowest point of the average cost curve. For this particular firm, it is Rs.5/=.

(02 Marks)

- (4) (i) Equilibrium Price = Rs. 40/= (01 Mark)
Equilibrium Quantity= 40 million kg. (01 Mark)

- (ii) New equilibrium price =Rs.30/= (01 Mark)
New equilibrium quantity = 60 million kg. (01 Mark)



- (iii) The total cost of the subsidy to the government = 1200 million rupees. (04 Marks)

Method

Subsidy for a unit =Rs.20/=

Quantity being sold = 60 units.

Total cost of the subsidy to the government = $20 \times 60 = 1200$

- (iv) The producer surplus after the subsidy= 900 million rupees. (03 Marks)

Method -1

Producers Revenue – Production Cost.

Revenue = $50 \times 60 = 3000$

Total Cost = $(20 \times 60)/2\} = 1200 + 900 = 2100$

Surplus = $3000 - 2100 = 900$ million rupees.

Method-II

The area inside the triangle ABC, gives the difference between producers total

Revenue and his total cost.

(02 Marks)

Therefore, $(AC \times AB)/2 = (30 \times 60)/2 = 900$

SUB SECTION -B

- (5). (i) (a) A productive transaction. It is added to the Gross Domestic Product of the concerned year.

(b) Not a transactional transfer. Not included into the GDP of the year.

(c) Does not show a productive transaction. Not included in the GDP of the year.

(d) A productive service. This is included into the GDP of the particular year.

(05 Marks)

(e) This will not be included into the GDP since it shows no production.

- (ii) (a) GNP at market price by income approach
 $GNP = 560$ billion rupees (01 Mark)

Method

$$\begin{aligned} \text{Net Domestic Income} &= \text{Rents} + \text{Interest} + \text{Dividends} + \text{Undistributed Corporate Profits} + \\ &\quad \text{Net Exports} + \text{Compensation of Employees} \\ &= 20 + 30 + 45 + 5 + 10 + 400 = 510 \text{ million rupees} \end{aligned} \quad (02 \text{ Marks})$$

$$\begin{aligned} \text{Gross National Product} &= \text{Net Domestic Income} + \text{Depreciation} + \text{Net Indirect Taxes} + \text{Net} \\ &\quad \text{Foreign Factor Income Earned} \\ &= 510 + 10 + 50 + (-10) = 560 \text{ million rupees} \end{aligned} \quad (01 \text{ Mark}) \quad (02 \text{ Marks})$$

(b) GNP at market price by expenditure approach = 560 billion rupees (01 Mark)

Method

$$\begin{aligned} \text{GNP} &= \text{Personal consumption expenditure} + \text{Government purchases} + \text{Net Private} \\ &\quad \text{Domestic Investment} + \text{Depreciation} + \text{Net Exports} + \text{Net foreign factor income earned.} \\ &= 400 + 100 + 50 + 10 + (10) = 560 \text{ million rupees.} \end{aligned} \quad (02 \text{ Marks}) \quad (01 \text{ Mark})$$

- (6) (i) (a) The total value of the autonomous expenditures is given below:

Autonomous consumption expenditure	= 1000	
Investment	= 500	
Government Purchases	= 600	
Net Exports	= (300)	
Total autonomous expenditure	= <u>1800</u>	(02 Marks)

- (b) The equilibrium income level for this economy = Y

$$\begin{aligned} Y &= C + I + G + NX \\ Y &= 1000 + 0.75Y + 500 + 600 + (-300) \\ Y &= 0.75 = 1800 \\ Y &= 1800/0.25 = 7200 \end{aligned} \quad (01 \text{ Mark}) \quad (01 \text{ Mark}) \quad (03 \text{ Marks})$$

- (ii) (a) Disposable personal income = Yd

$$Yd = Y - T + TR = 14 - 3 + 1 = 12 \quad (01 \text{ Mark})$$

- (b) Private savings = Yd - C = 12 - 7 = 5

- (c) Public savings = Sg

$$\begin{aligned} Sg &= T - (G + TR) \\ Y &= C + I + G \\ G &= Y - (C + I) \\ G &= 14 - (7 + 3) = 4 \\ Sg &= T - (G - TR) \\ Sg &= 3 - (4 - TR) = -2 \end{aligned} \quad (01 \text{ Mark})$$

- (d) Government purchases (G) = 14 - 10 = 4

- (e) Total Withdrawals = Private Savings + Direct taxes - Transfers
 $= 5 + 3 - 1 = 7$

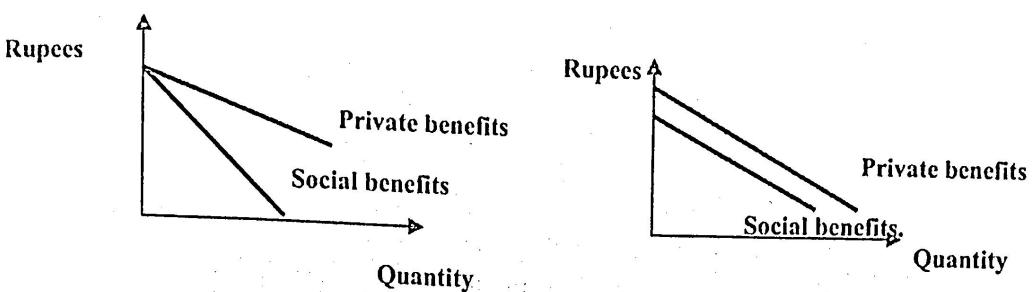
(01 Mark)

- (7) (i) (a) External costs = Due to negative externalities that arise through economic activities such as production or consumption, the entire society or some other external parties would also have to bear a cost which is referred to as external costs. Eg. Any external harm caused to other people in the environment as noise or pollution, unless the supplier is legally obliged to pay for it.

(02 Marks)

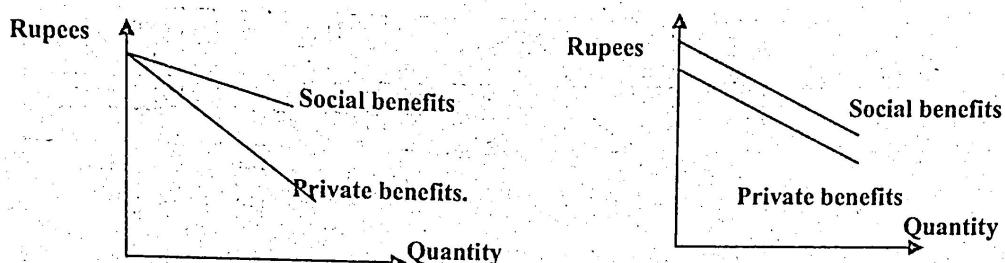
- (b) Private costs = This is the cost of providing goods or services as it appears to the firm supplying them. This includes the cost of any factor services or inputs bought by the supplier, the value of work done, and the use of land, buildings and equipment owned by the supplier.
Eg. Money spent by a person to buy a product at the market. (02 Marks)

(ii) (a) A negative externality in consumption.



When there is a negative externality in consumption social benefit curve functions below the private benefit curve. (02 Marks)

(b). A positive externality in consumption.



When there is a positive externality in consumption social benefit curve should go above the Private benefit curve. (02 Marks)

(iii)- Markets may fail to provide public goods and under-provide merit goods due to following reasons.

- Non-rivalry among consumers and inability to limit the number of beneficiaries are basic features of public goods. (01 Mark)
- Due to those reasons consumers are reluctant to pay a price for public goods. Since no one is willing to pay and buy these goods and services, the suppliers whose main objective is to maximize profits do not supply them. (01 Mark)
- A merit good is one which society, through the government, encourages us to consume because it is "good for us". They are not always pure public goods. In many cases they are mixed goods. i.e. they contain some private benefits and so their supply is subsidised rather than totally free to the user.(01 Marks)
 - People demanding merit goods may not consider external benefits but only private benefits when determining their demand thus creating less amount than the optimum level being supplied. (01 Mark)

(iv) Government failure – Even if the government intervene into the economy in order to improve economic efficiency and distribution of income it may create more and more inefficiencies in the economy or would not produce expected results due to the permanent weaknesses in the government sector. This situation is referred to as a government failure. (02 Marks)

- Bureaucracy, corruption, politicisation and the attention paid on short term goals than long- term goals affect highly on government failure. (01 Mark)

(8) (i) Supplying public and merit goods.

- Eradicating poverty and redistribution of income.
- Macroeconomic stability.
- Increasing the economic growth.
- Improving infrastructure facilities.
- Encouraging the private sector and improving investment.

(04 Marks)

(ii)

- Equity.
- Efficiency.
- Simplicity.
- Certainty.

(04 Marks)

(iii) - The difference between the government expenditure and the government revenue is referred to as the primary failure of the government budget. (02 Marks)

(iv) The main sources of financing budget deficit in Sri Lanka.

- Bank and non bank sources. (Local loans)
- Foreign loans.
- Foreign grants.
- Private receipts.

(02 Marks)

Economic implications

- Financial expansion and inflation as results of obtaining loans from banks sources.
- Contractionary effect, due to local loans.
- Increase in the local interest rates.
- Increase in the pressure on the balance of payment.
- Burden of credit on the future generation.

(03 Marks)

2007-ECONOMICS - II / Part -I

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

2007 – ECONOMICS - II / Part -II

(1) (i)

(a)	Base money (Reserve money)	Rs. Billion	
	Currency held by the public	= 150	
	Currency with commercial banks	= 20	
	Commercial bank deposits with CBSL	= <u>80</u>	
		250	(01 Mark)
(b)	Narrow money supply (M1)	= Rs. Billion	
	Currency held by the public	= 150	
	Demand Deposits held by the public with commercial banks	= <u>120</u>	
		270	(01 Mark)
(c)	Broad money supply (M2)	= Rs. Billion	
	Narrow money supply	= 270	
	Time and savings deposits held by the public with commercial banks	= <u>600</u>	
	M2	870	(01 Mark)
(d)	Consolidated broad money supply (M2b)	= Rs. Billion	
	Broad money supply	= 870	
	NRFC deposits treated as domestic deposit liabilities	= 125	
	Deposits of resident category of Offshore Banking Units	= <u>75</u>	
	M2b	1070	(01 Mark)

(ii) (a) If the reserve ratio is 20% this bank can make Rs.2000 million of excess reserve.

$$\text{Current Reserve} = \text{Rs. } 22,000 \text{ million}$$

$$\text{Required Reserve} = 100,000 \times 20/100 = 20,000$$

Since the loans can be extended by the amount of the excess reserve, the maximum amount of new loans that the bank could extend is Rs. 2000 million. (02 Marks)

(b) The balance sheet of the bank after it has lent this additional amount.

Liabilities (Rs. million)	Assets (Rs. million)	
Deposits 102,000	Reserve 22,000	
	Securities 38,000	
	Loans 42,000	
<u>102,000</u>	<u>102,000</u>	(03 Marks)

- (c) The balance sheet after cheque drawn for the entire amount of the new loans has been cleared.

<u>Liabilities (Rs. Million)</u>	<u>Assets (Rs. Million)</u>		
Deposits 100,000	Reserve	20,000	
	Securities	38,000	
	Loans	42,000	
<u>100,000</u>	<u>100,000</u>		
	(03 Marks)		

- (iii) (a) Statutory Reserves
 (b) Public preference to hold currency with them.
 (c) Transfer of deposits to non-bank institute.
 (d) Sale of securities at the open market by the CBSL. (03 Marks)
- (2) (i) The main objectives of the Central Bank of Sri Lanka are,
 (a) Maintaining economic and public security.
 (b) Maintaining financial system stability. (02 Marks)

The main functions of the Central Bank of Sri Lanka

- (a) Controlling the monetary policy.
 (b) Controlling the exchange rate policy.
 (c) Managing the official foreign reserves in Sri Lanka.
 (d) Issuing and distributing currency.
 (e) Issuing permit to banks and financial institutions and observing their functions. (03 Marks)

- (ii) Repurchasing and reselling rates of the Central Bank have formed an interest rate corridor for the interbank call money market rates. Repurchasing rate is the minimum level of it while the reselling rate indicates the maximum level. (02 Marks)

Repurchasing or reselling is an agreement made between the government and commercial banks with the intention of purchasing or selling securities at an accepted price on a specified date. The repurchasing rate of the CBSL is the daily interest rate at which loans are obtained and the reselling rate is the daily interest rate at which loans are released. (01 Mark)

Under the open market system the Central Bank estimates the liquidity of the banking system daily and for a pre-determined amount of money, auctions are held to repurchase or resell in order to prevent huge interbank interest rate changes. (01 Mark)

If there is an excess liquidity in the market, the Central Bank may have an auction to repurchase so as to absorb the excess liquidity. Similarly, if the market liquidity is low in order to release money into the market, the Central Bank may hold reselling auctions. (01 Mark)

- (iii) If the price of treasury bonds remains low, the total amount of money balances being held by the general public will also be reduced. (01 Mark)

General public make choices between treasury bonds and money according to the speculative motive existing for future money demand. When the price of treasury bonds went down, public would speculate that the price may go up in the future and hence they may demand for more treasury bonds today. (02 Marks)

Speculative motive is in effect due to the prevailing interest rates. There is an inverse relationship between the price of treasury bonds and interest rates. When the interest rate is high the demand for money on speculative motive is reduced thus increasing the demand for treasury bonds. (02 Marks)

- (3) (i) (a) Calculators: Norway = 100 , Sweden = 200
 Mobile Phones: Norway = 50 , Sweden = 50 (01 Mark)

The total number of Calculators that is produced by both the countries = 300
 The total number of Mobile Phones that is produced by both the countries = 100 (01 Mark)

- (b) Sweden has the absolute advantage in the production of calculators. (01 Mark)
 No country has an absolute advantage in the production of mobile phones. (01 Mark)

- (c) The opportunity cost of a calculator
 Norway: 2 calculators: 1 mobile phone
 1 calculator: $\frac{1}{2}$ mobile phone (01 Mark)

Sweden: 4 calculators: 1 mobile phone
 1 calculator: $\frac{1}{4}$ mobile phone (01 Mark)

- (d) Sweden has the comparative advantage for the production of calculators. If Sweden specializes in the production of calculators, the total production of calculators will be 400. (01Mark)
 Norway has the comparative advantage for the production of mobile phones. If Norway specializes in the production of mobile phones, the total production of mobile phones will be 100.
 (01 Mark)
- (ii) India
 Pakistan (02 Marks)
- (iii) World Trade Organization was established in 1995 in order to take over the functions of GATT, (General Agreement of Tariff and Trade), encouraging multilateral trade in goods and services.
 (01 Mark)

The functions of WTO

- Administrating trade agreement.
 - Opening a stage for trade discussions.
 - Conflict resolution in relevant trade issues.
 - Providing technical aids and training to solve problems in trade policies in developing countries
 - Interest with the other international organizations.
- (01 Mark)

How it relates to international trade

- Although GATT focussed on free trade promotion through the removal of tariffs on technical equipment, WTO focussed on improvement in agriculture, service industry, investment, intellectual property and all the other international domains.
 (02 Marks)
- It also concentrates on reducing barriers to free trade by lowering tariffs.
- Provides subsidies for agricultural products, implements production standards and provides export relief.
- Intellectual property rights and other rights to international trade are formed and controlled. However there is a reasonable criticism that WTO creates discriminations and increases the gap between rich and poor countries.

(4) (i) (a) Trade Account	-300	
Merchandise exported	700	
Merchandise imported	1000	
Service Account		
Net services	25	
Income Account	- 40	
Income Receipts	30	
Income Payments	70	
Transfer Account	215	
Official Transfers (Net)	15	
Private Transfers (Net)	200	
Current Account Balance	- 100	

(03 Marks)

(b) Balance in the capital and financial account	140	
Capital Account	40	
Capital Transfers (Net)	40	
Financial Account	100	
Foreign Direct Investment (Net)	50	
Privatisation proceeds	10	
Private long term capital (Net)	10 (40-30)	
Government long term capital (Net)	30 (55-25)	

(03 Marks)

(c) Current account balance	-100	
Capital and financial account balance	140	
Overall Balance	40	

(03 Marks)

- (ii) Within a floating exchange rate system, the exchange rate is determined by the demand and supply of the foreign exchange market. The demand and supply will be affected by the following factors.
- Imports and exports.
 - Long-term capital flow.
 - Financial mobility.
 - Expectations.
 - Interest rates.
 - Certain situations that occur in the country's economy such as inflation and changes in the fiscal policy.
- (06 Marks)

SECTION-B

(5) (i) economic growth is the persistent increase in the real gross domestic product. The long term expansion of the production capacity of the economy is considered here. (02 Marks)

(ii) Reasons for economic growth

(a) Increase in resources.

- Increase in human and physical capital.
- Increase in the natural capital.
- Increase in the social capital.

(b) Increase in the productivity.

- Development in technology.
- Novelty.
- Investment for research and development.
- Improvement in management.

(c) Economic stability.

(d) Political stability. (04 Marks)

(iii) Reduction in unemployment.

Reduction in poverty.

Reduction in the inequalities in the distribution of income.

Protecting environment.

Increasing investments in education and health sectors.

Reducing corruption in the economy. (04 Marks)

(iv) (a) It is a measure that shows the quantity of goods and services not the qualitative changes relevant to economic development. It includes both the products that are favourable and unfavourable to the country's economy. E.g.: Cigarettes, Alcohol etc.

(b) It does not show clearly the production in the informal sector. Therefore it underestimates the exact level of production in the country.

(c) It is impossible to identify changes in the standard of living since the nominal exchange rate does not give a clear picture of the changes in the price level of countries.

(d) It does not show the severity of the environmental pollution or the depreciation of natural capital.

(e) It does not disclose some important socio-economic variables such as poverty and unemployment.

(6) (i) Pro-poor growth is a process of growth that supports and contributes efficiently towards an increase in the level of income of people. (02 Marks)

Therefore the relative distribution of income should be made favourable for poor. (01 Mark)

There are two definitions that are used to measure pro-poor growth. They are relative definition and absolute definition.

According to the relative definition of poverty, pro-poor growth should show a higher increase in the average income of poor than that of non-poor population. (01 Mark)

Absolute definition describes pro-poor growth as a process of growth that favours poor and increases the absolute income of the poor.

(iii) (a) Macro economic policies.

There should be policies that can be implemented to enhance and upgrade the quality of the life of poor.

Eg: Controlling inflation, Opening selected domains to free trade.

(b) Sub policies

Eg: Agricultural reforms, technological policies, human resource development through Education, expanding health facilities and empowering women.

(c) Provincial development policies.

Developing areas in which poor people live.

(d) Re-structuring policies in order to benefit the poor.

(e) Creating a favourable social, political environment. (05 Marks)

(iii) (a) Steps taken to uplift the standard of agricultural industry.

Eg: A stable price for rice, thousand tanks program, Dairy villages.

(b) Development in rural infrastructure facilities.

Eg: Gama Neguma, Maga Neguma, Gemi Pubuduwa, Gemi Diriya, etc.

- (c) Provincial Development Projects.
Eg: Pubudamu Wellassa, Rajarata Navodaya, Senkadagala Pibideema, Ruhunu Development Project
- (d) Steps taken to upgrade the quality in Micro, Small and Medium scale enterprises.
Eg: Provincial Development Banks, Lankaputhra Bank, National Entrepreneurs Bank, Micro financial schemes.
- (e) Improving education.
Eg: Provincial educational institutions, Rural resource centres. (05 Marks)
- (7). (i) Samurdhi subsidy program. – Providing a monthly allowance for low income families to buy food items for their daily requirements.
 - Social security programs, providing relief in disasters such as accidents and deaths providing assistance in essential social activities.
 - Community development projects,- Rehabilitating rural, small irrigation systems, Developing tanks in dry zones, Drinking water and sanitary services development projects.
 - Rural road development.
 - Banking programmes- Increases savings deposits of poor, provide loans to poor and improve their banking habits.
 - Providing employment and income generating programs.
 - Nutrition programs.
 - Scholarship programs such as Nena Nuwana.
 - Organizations to empower women.
 (05 Marks)
- (ii) In order to allow low income families to earn a stable income through the involvement of economic activities, rural infrastructure facilities are improved.
Gemi Pubuduwa is one of these programs. Under this program in 2005, about 10,800 Development programs were implemented.
Samurdhi beneficiaries contribute to this program, by providing their labour.
Projects are selected by the members of the Samurdhi society.
Special rural development programs are implemented where the density of poor population is high. Supply of drinking water and sanitary facilities, providing self employment are among them. This intends to increase the income of a Samurdhi family up to Rs.5000/= per month. (05 Marks)
- (iii) Selecting beneficiaries has not been successful. Percentage of households in poverty, in Sri Lanka remains at 19% whereas nearly two million people are benefited from Samurdhi Programme.
 - Selection process has become highly politicised.
 - Structural weaknesses may create inefficiency in the process of eradicating poverty.
 - A huge administrative structure may increase administrative costs.
 - Poor coordination between various projects in the Samurdhi Program.
 - Minor ethnic groups may be paid less attention.
 - Inability to maintain the program in a sustainable manner. The program fully depends on the government contributions creating expenditure about Rs.9 to 10 billion annually.
 - Emerging a dependant culture: (People may not take any effort to earn a living on their own since they are provided with their necessities by the government). (05 Marks)
- (8) (i) Wholesale and retail trade, hotels and restaurants.
 - Transport, storage and communication.
 - Financial services, real estate and business services.
 - Public administration, other government services and defence, other community Social and personal services.
 (05 Marks)
- (ii) 2001 --- 53.1%
 2002 --- 53.2%
 2003 --- 54.6%
 2004 --- 55.6%
 2005 --- 55.8% (05 Marks)
- (iii) Structural changes are unavoidable in the economic development process. The relative importance of agricultural and the industrial sectors decline and that in the service sector emerges.

- There are structural changes in consumer demand when there is an economic development. The demand for food items will be constant whereas the demand for non-food item and services expands.
- The natural resources required for the production of services are less than the amount required for the production of agricultural and industrial products. Therefore the expansion of the service sector is much beneficial in the countries with low levels of national resources.
- Protecting the natural resources would be beneficial for the sustainable economic growth.
- The room to expand for the service sector in the process of globalisation is high and the third world countries are being benefited from those expansions. (05 Marks)