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Second Term Test - Grade 13 - 2020

Index No : ..... Economics I Two Hours

Important

- **Answer all the questions.**
- **Select the correct or most suitable answer and write the correct number on the given dotted line.**

01. When compared with non-economic goods one of the following would not be a feature of an economic good. Select the irrelevant feature of an economic good.
    1. A result of a production project.
    2. Zero opportunity cost.
    3. Ability of transferring the ownership.
    4. Decreasing marginal cost.
    5. Scarcity.

02. Assume a certain economy produces consumer goods and capital goods. If the present production point lies on the production possibilities curve and the production of consumer goods increases,
    1. Production of capital good would be lower.
    2. The opportunity cost of capital good increases.
    3. The supply of capital good remains constant.
    4. The curve shifts leftward only from the consumer good axis.
    5. The production possibility curve shifts leftward.

03. A significant feature in a command economy is,
    1. Having a higher efficiency than the market economy.
    2. The private resource ownership as a sailant factor of economic growth.
    3. Resources distribution based on relative price.
    4. Unequal distribution of income and wealth.
    5. Decisions of the production of goods and services are made by state planners.

04. When a certain firm lies at the efficient resource allocation output level,
    1. Total resources would be equal to total cost.
    2. Marginal revenue would be equal to marginal cost.
    3. Marginal reserve exceeds the marginal cost.
    4. Price equals to marginal cost.
    5. Price equals to the average total cost.

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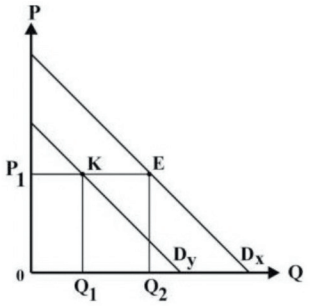
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05. Assume, the demand of X good reduces with an increase in consumer income and quantity demanded of Y is reduced with a lower price of Y. Accordingly, select the accurate statement related to X and Y.
1. X good is an inferior good and Y is a public good.
2. X is an inferior good and Y is a consumer good.
3. X and Y both are Giffen goods.
4. X is an inferior good and Y is a Giffen good.
5. X is a Giffen good and Y is an inferior good.

06. Along the linear demand curve which slope downward from left right, different elasticity values are derived,
1. As the curve gets a positive slope.
2. As the slope is changed from point by point.
3. As the curve gets a positive slope.
4. As the price and quantity demanded are changed point by point.
5. Due to the negative relationship between price and quantity demanded.

07. The supply curve of X good which in sold in the market shows the expected minimum prices for different quantities of X good. Which of the following would cause to increase the expected minimum price by suppliers.
1. Development in production techniques.
2. Leaving a certain amount of suppliers from the market.
3. Increase in number of suppliers.
4. Fixing a maximum price that good can be sold.
5. Decrease in the factor prices of goods productions.

08. Two linear demand curves related to X good and Y good are as follows.



Which of the given statement would be correct related to two goods at P_1 Price?
1. The elasticity is less than one in both points.
2. The elasticity is greater than1 in both points.
3. Elasticity values are equal at both points.
4. The elasticity of E point would be greater than the point K.
5. The elasticity of E point is lesser than the K point.

09. The market demand and supply curves of a certain good in a competitive market given as below.

Qd = 110 – 4P Qs = -10 + 2P

Price elasticity of demand at the market equilibrium is,

1. - 0.46 2. - 0.20 3. – 2.66 4. - 1.33 5. – 2.25

10. What would be the result of decreasing the input price of a certain good which has a normal demand and supply curves that agree to the law of demand and law of supply.?
1. Shifts the supply curve leftward.
2. Increases in equilibrium price and quantity.
3. Decrease in equilibrium price but increase in equilibrium quantity.
4. Increase in equilibrium price but increase in equilibrium quantity.
5. Decrease in equilibrium price and quantity.

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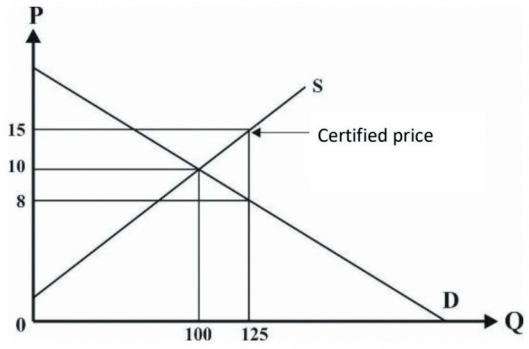
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11. Assume a certain market is at the equilibrium by supplying 600 units at Rs. 80/-. If Rs. 60 of maximum price is imposed on this good the result of the market would be,
    1. An excess demand.
    2. An excess supply.
    3. Equilibrium price created.
    4. Decrease in demand.
    5. Increase in supply

12. If a unit tax is imposed on a certain good that is in equilibrium with a perfectly elastic supply curve,
    1. Producer bears the tax burden.
    2. Equilibrium quantity remains constant.
    3. Tax revenue of the government would be zero.
    4. The new equilibrium price is increased from the same amount of unit tax.
    5. The decrease in equilibrium price can be equal to the unit tax.

13. If government provides a subsidy for producers, it would be unfavourable for social welfare,
    1. When investments would be increased rapidly at the field that subsidy given.
    2. when the tax burden of subsidy is greater than the cost of subsidy.
    3. Because the subsidy is given by charging tax.
    4. Because those who receive subsidy are hot suitable to have the subsidy.
    5. Because both subsidy receivers and tax payers are the members of the society.

14. Economic effects of deficiency payment system in the minimum price policy are shown by the following diagram.



Accordingly, the total cost of the government and the cost made by consumers to purchase goods respectively are,

    1. Rs. 1000/- and Rs. 1875/-
    2. Rs. 875/- and Rs. 1000/-
    3. Rs. 1000/- and Rs. 750/-
    4. Rs. 1500/- and Rs. 1000/-
    5. Rs. 1875/- and Rs. 1000/-

15. When diminishing returns are created related to an input,
    1. Total product is maximized.
    2. Marginal product equals to zero.
    3. Marginal Product is increasing.
    4. Marginal product is reducing.
    5. Average product is increasing.

16. Which of the following can be identified as a sunk cost in the short run in perfectly competitive market?
    1. The cost made to purchase a machine.
    2. Paying wages for workers.
    3. Cost made to purchase raw materials.
    4. Transport cost.
    5. Packing cost.

17. A feature in a perfectly competitive market is,
    1. Normal profit is earned in the short run.
    2. Few firms supply goods.
    3. Homogenous products are produced by firms.
    4. Barriers in market entry.
    5. Profit is maximized by making the price by firm.

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18. Assume the certain biscuit has achieved a monopoly power by introducing a new biscuit. What may be the reason to achieve the natural monopoly by this firm?
    1. By being single producer in the market.
    2. Entreaty to the business with a higher capital.
    3. Earning economics of scale.
    4. Utilized advanced capital to achieve a higher productivity.
    5. Having the main ownership of the slope of raw materials byte firm.

19. In a hypothetical economy certain national accounting data is given below.

Total gross value of the product at basic price	10800
Gross operational surplus	2200
Workers compensation	5000
Intermediate consumption	4300
Production and import tax	1300

The gross value addition at basic price is,

1. Rs. 6500 2. Rs. 5600 3. Rs. 5200 4. Rs. 8600 5. Rs. 7300

20. In calculating national accounts, transportation and trade margins are used to,
    1. Convert product at market price produces price.
    2. Convert value added at producers price to basic price.
    3. Convert product at basic price to market price.
    4. Convert value added at producers price to buyers price.
    5. Convert value added at basic price to producers price.

21. The resources accumulates of an economy is,

    1. Gross domestic product + Imports
    2. Gross domestic product + Export - Import
    3. Value added in agricultural sector + Value added in industry and service sectors - Exports
    4. Government consumption expenditure + Household consumption expenditure + Investment expenditure + Imports
    5. Consumption expenditure + Investment expenditure + Exports - Importers

22. The gross domestic expenditure of an economy is greater than the gross domestic product if,
    1. The net foreign primary income of the economy is negative.
    2. Net export amount is negative.
    3. Net export amount is positive.
    4. Net foreign primary income of the economy is positive.
    5. Net foreign secondary income account balance is positive.

23. At the point where consumption curve moves across the equilibrium national income line, the average propensity to consume is?
    1. Less than one 2. Greater than one 3. Equals to one
    4. Zero 5. None of above

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24. The inflationary gap at the full employment income level is created,
    1. When aggregate demand increases in exceeding the aggregate supply.
    2. When increasing price exceeding salary increase.
    3. When increasing planned savings exceeding planned investments.
    4. When increasing national income exceeding national product.
    5. When increasing price exceeding wage increase.

25. Assume the autonomous consumption is zero and average propensity to consume is 0.8 when investment is 2000. The equilibrium income of this economy is,
    1. Rs. 1000 2. Rs. 8000 3. Rs. 9000 4. Rs. 10000 5. Rs. 15000

26. The demand curve for money is downward from left to right as,
    1. Money is demanded for transaction motive.
    2. Money is demand for precautionary motive.
    3. Money is demanded for speculative motive.
    4. Money demand is a negative function of average price level.
    5. The negative relationship between money supply and price level.

27. The most liquid asset among following is,
    1. Cheques 2. Savings deposits 3. Fixed deposits
    4. Demand deposits 5. Treasury bills

28. What would be the real interest rate when the nominal interest rate is 16% and the inflation rate is 12% of a certain economy?
    1. 0.0% 2. -28% 3. -4% 4. 28% 5. 4%

29. A certain commercial bank owns Rs. 10,000 million of excess reserves and Rs. 80000 million of deposits.
    If the reserve ratio is 25%, the reserve amount of the bank and total loan amount which can be created when the credit supply is over is,

Credit amount that can be created	Real reserve amount
1. Rs. 40000 million	Rs. 30,000 million
2. Rs. 100,000 million	Rs. 25,000 million
3. Rs. 40,000 million	Rs. 10,000 million
4. Rs. 30,000 million	Rs. 40,000 million
5. Rs. 80,000 million	Rs. 20,000 million

30. What would be the deposit expansionary multiplier if the statutory reserve ratio that the central bank determines on commercial bank is 40% ?
    1. K = 10 2. K = 2.5 3. K = 4 4. K = 2 5. K = 20

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31. What would be the result of increasing the policy interest rate by the central Bank?
    1. Money supply reduces and interest rate increases.
    2. Money supply increases and interest rate increases.
    3. Money demand increases and interest rate decreases.
    4. Money supply reduces and internet rate reduces.
    5. Money supply reduces and interest rate reduces.

32. When securities are sold by the central bank, to commercial banks,
    1. Interbank call rate reduces and upper limit of interest rate corridor is determined.
    2. Interbank call money rate increases and lower limit of interest corridor is determined.
    3. Interbank call money rate remains constant and lower limit of interest rate corridor is determined.
    4. No influence towards the interbank call money market.
    5. No influence on interest rate corridor.

33. Which of the following is considered as an asset of commercial banks?
    1. Demand deposits and loans.
    2. Share capital and fixed deposits.
    3. Time deposits and savings deposits.
    4. Money and loans charged from the Central Bank.
    5. Loans and share capital.

34. Quantitative credit controlling technique of the Central Bank is,
    1. Imposing marginal requirements.
    2. Moral suasion
    3. Ceiling on interest rate.
    4. Provision of refinancing facilities.
    5. Selling and purchasing treasuring bills in open market.

35. Identify the good that is rival but non excludable.
    1. Quasi - Public good
    2. Public good
    3. Common resources
    4. Merit good
    5. Private good

36. When a good is produced in a market, if the market optimum output level is greater than the social optimum output level, the meaning of this is,
    1. Negative externalities are created in its production.
    2. Positive externalities are created in its production.
    3. Positive externalities is consumption are created in its consumption.
    4. Negative externalities in consumption are created in its consumption.
    5. The social optimum consumption of the good creates a negative value.

37. The largest component of the tax income at present in Sri Lanka is,
    1. Expenditure tax
    2. Income Tax
    3. Production Tax
    4. Tax on added value.
    5. Import Tax

38. The largest component of the current expenditure at present in Sri Lanka is,
    1. Expenditure on goods and services
    2. Interest payment
    3. Wages and salaries
    4. Current transfers
    5. Household transfers

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39. What you mean by the primary balance in the public finance policy. ,
    1. The difference between total government income and recurrent expenditure of the government.
    2. The balance which is derived by subtracting total expenditure from the total government revenue.
    3. The balance deducting loan repayment from the total government revenue.
    4. The difference between government tax income and recurrent expenditure.
    5. The net balance received after deducting interest payment from the overall balance.

40. The total government revenue and the total government expenditure as a percentage in GDP in 2018 is,

	Government revenue	Government expenditure
1.	18.6	13.3
2.	11.9	14.5
3.	13.3	18.6
4.	14.3	13.6
5.	14.5	11.9

41. Regressive tax means,
    1. Paying a lower tax amount by high income earners from their total income than the low income earners.
    2. Paying an equal proportion of income as tax by all the tax payers.
    3. Paying a higher proportion of income as tax by high income earners than law income earners.
    4. The tax system that increase in tax percentage with an increase in income.
    5. Paying an equal tax amount with an increase or decrease in income.

42. What would be the difference between social cost and social benefits of the express way project that created Rs. 80 billion of private cost, Rs. 120 billion of private benefit, Rs. 125 of external cost and 70 billion of external benefit.
    1. Rs. 40 Billion
    2. Rs. 95 Billion
    3. Rs. 5 Billion.
    4. Rs. 15 Billion
    5. Rs. 30 Billion

43. Main pillars in sustainable of development are,
    1. Social, environment and economic development.
    2. Minimizing income disparities, saving resources and social development.
    3. Sustainable environmental conservation and social conservation.
    4. Decreasing unemployment and achieving an economic growth.
    5. Improving knowledge skills and social standard.

44. What would be specially considered in comparative advantage is international trade?
    1. low cost
    2. lowest inefficiency
    3. lower opportunity cost
    4. Higher productivity
    5. Productive efficiency

45. Following table shows the information about number of labour hours per unit of output.

	Japan	Sri Lanka
Motor Bike	40	20
Foot cycle	50	80

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What would be the conclusion which can be made related to the international trade.?

1. The absolute advantage of producing of both products is with Japan.
2. The absolute adventure of producing both products is with Sri Lanka.
3. The absolute advantage of producing foot cycle is with Sri Lanka.
4. The absolute advantage of producing motor bikes is with Japan.
5. The absolute advantage of producing motor bikes is with Sri Lanka.

46. The import and export direction in Sri Lanka in 2018 is,

	Export trade direction	Import trade direction
1.	USA	China and Singapore
2.	China and India	USA
3.	USA	India and China
4.	European Union	USA
5.	USA	China

47. What would be the import price due to increase in export price by 20% and reduction in, terms of trade by 25%?

1. Should increase by 60%
2. Should increase by 160%
3. Should decrease by 16%
4. Should increase by 16%
5. Should be 16%

48. Select the accurate answer for exports competition for 2018 in Sri Lanka.

	Agriculture Export	Industry Export	Mineral
1.	18.7	78.8	2.5
2.	20.5	79.2	0.3
3.	26.5	72.9	0.6
4.	21.7	77.9	0.3
5.	22.7	76.9	0.4

49. Certain competitive advantage sources of international trade are given below. which of the following would be a cost advantage source?

1. Producing goods with high quality.
2. Higher level of capacity Utilization.
3. Making Brands
4. Having the ownership of intellectual property.
5. Making novelties.

50. The terms of trade in Sri Lanka can be non-beneficial,

1. When export income increases at a higher rate than import expenditure.
2. When export price increases at a higher rate than import price.
3. When export capacity increases at a higher rate than import capacity.
4. When import price increases at a higher rate than export price increase.
5. When import capacity increases at a higher rate than export capacity.

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Second Term Test - Grade 13 - 2020

Index No : ..... Economics II Three Hours

Important

- **Select at least two questions from each section and answer five questions.**

A part

01). i. Discuss the classification of natural resources. (4 marks)

ii. Explain the labour as a production factor and mention determinants of labour supply (3 marks)

iii. Explain following events related to agricultural goods and industrial goods using production possibility curves.

a. Introducing high quality fertilizer.

b. Technological improvement in both sectors.

c. Decreasing the cultivable land area by 20 % due to heavy rain.

e. Achieving the productive efficiency by employing 50 % of equal share of available resource for both products. (4 marks)

iv. Why the production possibility curve is bowed out word or concave to the origin? (2 marks)

v. a. How to differ the market economy from command economy ? (4 marks)

b. What are the criteria in assessing the performance of an economic system ? (3 marks)

02). i. a. Define 'demand' according to economics. (2 marks)

b. What are the factors based on Law of demand? (2 marks)

c. Discuss the relationship between private demand curve and market demand curve using relevant diagrams. (4 marks)

ii. What are the factors kept in constant in deriving a market supply curve. (3 marks)

iii. Write three determinants of demand elasticity. (3 marks)

iv. Certain information related to price and quantity supply of a market given as below.

Price	Quantity Supply
5	100
10	200

Calculate the supply elasticity based on given information. (2 marks)

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v. The demand and supply equations in a certain competitive market given below.

$Qd = 120 - 2P$

$Qs = -10 + 3P$

Calculate the,

a. Equilibrium price and quantity (2 marks)

b. Excess demand at Rs. 20 /= (2 marks)

03). i. Distinguish maximum price and minimum price as a way of government intervention towards the free market. (4 marks)

ii. Certain information of a market related to demand and supply are as follows.

Price	**Qd**	**Qs.**
4	42	6
8	34	22

a. Derive the demand equation and supply equation assuming the demand and supply curves are linear. (4 marks)

b. Derive the equilibrium price and quantity using demand and supply equations. (2 marks)

c. If government imposes Rs. 3.00 of unit tax, what would be the price received by the producer and tax revenue of the government. (4 marks)

iii. Using a diagram, discuss the share of subsidy advantage between consumer and producer at a situation of relatively inelastic demand and supply. (4 marks)

iv. Mention two measures which can be taken to make the farmers revenue stable and price of agricultural products stable. (2 marks)

04). i. Distinguish between explicit cost and implicit cost (2 marks)

ii. What are the conditions in a perfectly competitive market? (4 marks)

iii. Mention two similarities and two differences between perfect competition and monopolistic competition. (4 marks)

iv. Explain following concepts in brief and show the calculation system.

a. Total variable cost

b. Total cost

c. Average total cost (6 marks)

v. Using relevant diagram explain the shutdown condition of a firm in perfect competition based on marginal analysis. (4 marks)

05). i. What is meant by ' primary incomes' in calculating the national accounts? Discuss. (4 marks)

ii. Certain information related to a hypothetical economy given as bellow.

Gross Domestic Fixed capital formation	400
Private Consumption Expenditure	1500
Stock change	-25
Export	275
Net foreign primary income	50
Government purchases	450
Imports	300
net tax on production	75

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Calculate,

a. Gross Domestic Product at current market Price. (2 marks)

b. Gross national income (2 marks)

iii. Mention four uses in calculating natural accounts. (4 marks)

iv. Certain macro economic data related to an economy given bellow.

Consumption function	C=100+0.8yd
Investment function	(I) = 240
Government consumption expenditure	(G) = 200
Taxation	(T) = 160
Government transfers	(T_r) = 110

a) Calculate the equilibrium output level of the economy (4 marks)

b) What would be the change in equilibrium income due to increase in investment upto 440 (2 marks)

c) Calculate the government expenditure multiplier and tax multiplier (2 marks)

B – part

06). i. What are the factors in determining the demand for money? (2 marks)

ii. Explain the difference between base money and money supply. (4 marks)

iii. Explain the quantitative theory of money in illustrating reasons for inflation? What are the assumptions behind that? (4 marks)

iv. How to classify the structure of financial institutions according to the Central Bank. (2 marks)

v. Assume, a person has deposited Rs. 40, 000 as a demand deposit in a bank of a banking system that statutory reserve ratio is 40%

a. Calculate the excess reserves of this bank (2 marks)

b. When excess reserves are issued as loans and deposited again in the same bank, what would be the balance sheet? (2 marks)

c. Prepare the consolidated balance sheet when the credit creation is over. (2 marks)

d. If the statutory reserve ratio is made to 10% what would be the final balance sheet at the end of the credit creation process. (2 marks)

07). i. Explain cost push inflation using an appropriate diagram. (4 marks)

ii. What are the polices that can be used to control the inflation. (4 marks)

iii. What are the assumptions that are based in credit creation process of a commercial banking system. (3 marks)

iv. What is meant by deposit expansionary multiplier?
What would be the deposit expansionary multiplier at a banking system that statuary reserve ratio is 25 %. (4 marks)

v. What is meant by the monetary policy? What are the monetary policy instruments of the Central Bank. (5 marks)

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08). i. What is meant by market failure? What are the factors affecting that ? (4 marks)
ii. Discuss the difference among global public good, quasi - public good and demerit good. (3 marks)
iii. Using a relevant diagram, explain the way of creating market failure due to the negligence of negative externalities in consumption. (5 marks)
iv. What are the tax income components and non - tax income components of the budget in Sri Lanka. (6 marks)
v. Explain the feature of efficiency in a good tax system. (2 marks)

09). i. What are the objectives of taxation. (4 marks)
ii. As a percentage of GDP disuses the composition of current expenditure of the government in recent past. (3 marks)
iii. Explain the differences among current balance, overall balance and net cash deficit of the government budget. (3 marks)
iv. Name two expansionary sources and 2 non - expansionary sources of financing the budget.(4 marks)
v. Discuss the difference between vote on account and interim budget. (6 marks)

10). i. Explain the difference between the theory of absolute advantage and the theory of comparative advantage. (4 marks)
ii. What are the non-tariff protectionism methods. (2 marks)
iii. Wheat and cloth productions in the England and France utilizing equal amount of resource inputs are given below.

Country	Wheat	Cloth
France	200	100
England	100	80

a. Calculate the opportunity cost of producing wheat and cloth in England and France. (4 marks)
b. Write the internal exchange rates and external exchange rates to create the beneficial trade among countries. (4 marks)

iv. What are the non - financial assets accounted in capital account of the balance of payment.(3 marks)
v. Name major accounts in the balance of payment document. (3 marks)

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