

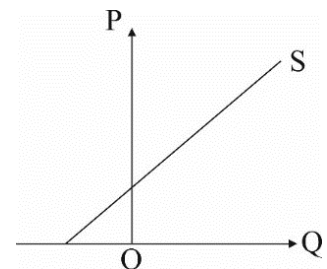
Index No :

Two Hours

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

- 1

- 6) Select the statement that can be agreed related to the production possibilities curve?
1. The Slope of the production possibilities curve implies an increasing opportunity cost.
 2. The over utilization of resources is implied by the points on the production possibilities curve
 3. The production point is always lies on the production possibility curve due to full labour employment.
 4. Due to the labour unemployment, the production point always lies right to the production possibilities curve.
 5. The production boundary can shift right word when production factor endowment and factor productivity are increased.
- 7) The demand curve for a normal good can shift leftward when,
1. The price of complement good is increased.
 2. When increasing the advertising expenses on a complementary good.
 3. When increasing the taste for the good.
 4. When increasing consumer income
 5. When Increase in the price of the concern goods
- 8) Even with the price change if the total revenue remains constant,
1. The demand for the good should be zero elastic.
 2. The demand for the good should be unitary elastic.
 3. The demand elasticity of the good should be inelastic
 4. The demand elasticity of that good should be elastic
 5. The consumer should respond much on price changes.
- 9) Identify the reason to shift the supply curve of a competitive market leftward?
1. Increase in price of the good
 2. Decrease in price of the good
 3. Increase in production cost
 4. Decrease in production cost
 5. Decrease in demand for the good
- 10) The supply curve of a certain good is as follows.
Select the statement that the price supply elasticity is accurately discussed according to the above diagram.
1. The elasticity is negative and the value reduces with an increase in output.
 2. The elasticity value is greater than 1 and the value reduces with an increase in output.
 3. The elasticity value is greater than 1 and the value increases with an increase in output.
 4. The elasticity value is fixed but greater than 1 at each level of output.
 5. The elasticity value is fixed but less than 1 at each level of output.
- 11) Which of the following situations the consumer surplus would be zero?
1. When the supply elasticity is perfectly inelastic.
 2. When the supply is perfectly elastic.
 3. When demand is perfectly inelastic.
 4. When the demand is perfectly elastic.
 5. When the demand elasticity gets a higher value than supply elasticity.
- 12) The demand and supply equations of a competitive market are given as below.
- $$Q_d = 80 - 2p \quad Q_S = -20 + 3p$$
- The equilibrium price and quantity of this market respectively are,
1. 40 rupee and 120 units.
 2. 60 rupee and 15 units
 3. 20 rupee and 50 units
 4. 10 rupee and 60 units.
 5. 20 rupee and 40 units.



- 13) The demand and supply curves of a good sold in a competitive market are reflected by the following equations.

$$Q_d = 160 - 4p \quad Q_s = -20 + 2P$$

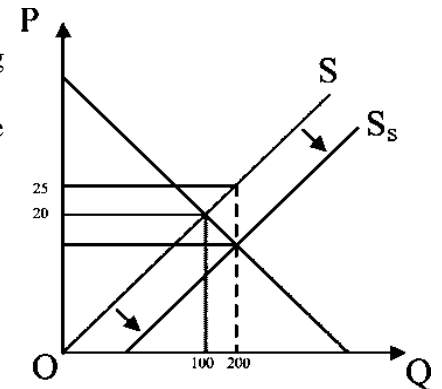
The price elasticity of demand at the equilibrium of this market is,

1. -2.4 2. -2.6 3. -2.8 4. -3.0 5. -5.3
- 14) An outcome of the maximum price policy imposed below the equilibrium price is,
1. Excess supply 2. Excess demand 3. Equilibrium price
4. Increase in supply 5. Decrease in demand
- 15) The data of a pineapple market given in a table below.

Price (Rs.)	Quantity demand (units)	Quantity supply (units)
30	11	22
25	12	19
20	13	17
15	15	15
10	17	13
05	20	11

If Rs.10.00 of unit subsidy is given on pineapple producers by the government, the new equilibrium price of the pineapple market would be,

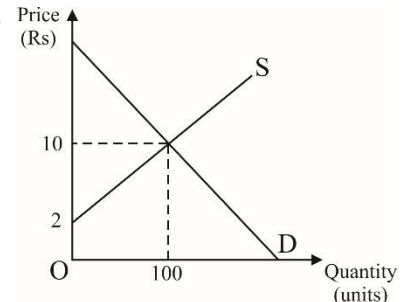
1. 5 rupee 2. 10 rupee 3. 20 rupee
4. 25 rupee 5. 15 rupee
- 16) A competitive market for a certain good is reflected by the following diagram.
- To motivate market producer if a production subsidy is given by the government, the production surplus is increased by,
1. 3000 rupee 2. 2000 rupee 3. 4400 rupee
4. 500 rupees 5. 550 rupee



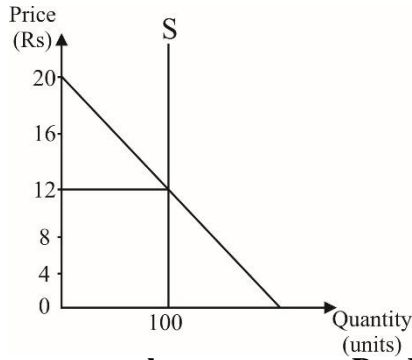
- 17) This is not an effect of the imposition of maximum price limit,
1. Commodity shortage in the market due to excess demand.
2. Making an effort to sell goods at illegal black market price.
3. Selling goods at a lower price even lesser than the equilibrium, due to the black market price.
4. Limiting the investment in the production field, as producer's profit is limited.
5. Unfavorable effects towards the consumer and producer surpluses and hindering the social welfare.

- 18) What should be the production surplus at the equilibrium of the following market?

1. 200 rupee 2. 400 rupee 3. 350 rupee
4. 300 rupee 5. 600 rupees



19) If Rs. 4/= specific tax is imposed on the good illustrated by the given diagram,



Consumer surplus.

Producer surplus

- | | | |
|----|------|------|
| 1. | 400 | 800 |
| 2. | 400 | 1200 |
| 3. | 1200 | 400 |
| 4. | 400 | 400 |
| 5. | 800 | 80 |

20) Which of the following would be the accurate supply equation , if 5 rupee of unit subsidy is given on the good that $Q_S = -40 + 3p$,

- | | | |
|----------------------|----------------------|---------------------|
| 1. $Q_S = -55 + 33p$ | 2. $Q_S = -40 + 15p$ | 3. $Q_S = 40 - 15p$ |
| 4. $Q_S = 55 - 3p$ | 5. $Q_S = -25 + 3p$ | |

21) If a surplus is maintained by a firm even after removing the direct cost from the total revenue, the firm earns ,

- | | | |
|-------------------------|-----------------------|----------------------|
| 1. Normal profit | 2. Economic profit | 3. Accounting profit |
| 4. Zero economic profit | 5. Zero normal profit | |

22) Which of the following statements would be **inaccurate** related to long run production process?

1. Expansion of the production capacity of the firm
2. The output behavior is reflected by the returns to scale,.
3. The ratio of factor combination remains constant.
4. Due to decreasing returns scale, the long run average cost increases.
5. The total cost would be equal to the total variable cost.

23) Which of the following is not been considered as a part of the opportunity cost, when the economic profit is calculated by a firm?

- | | | |
|------------------|------------------|-------------------|
| 1. Fixed cost | 2. Variable cost | 3. Financial cost |
| 4. Implicit cost | 5. Sunk cost | |

24) What would be the incorrect statement related to the short run production process?

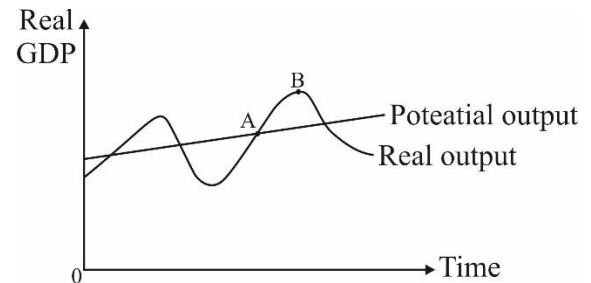
1. The short run production cost curves are a reflection of the diminishing marginal Returns.
2. When the price of the variable factor remains constant, the marginal cost reduces due to increase in marginal productivity of variable inputs.
3. When marginal returns started to diminish, marginal cost increases.
4. When marginal product is maximized in the short run, the marginal cost is also maximized.
5. The short run marginal cost curve is a reflection of the marginal product curve.

- 25) Economics of scale of a firm
1. Is always caused to increase the abnormal profit.
 2. Is caused to increase the average cost
 3. Is caused to bring benefits for multinational companies.
 4. Is Caused for simultaneous increase in output.
 5. Is caused to decrease the long run average cost.
- 26) Which of the followings would not be included in the short run total fixed cost?
1. License payment
 2. wages paid on untrained labourers
 3. Insurance premium
 4. Interest payments on capital
 5. Salary payments on managers
- 27) The present use of transfer earning of a certain factor equals to its
1. Economic rent
 2. Market price
 3. Opportunity cost
 4. Total revenue
 5. Marginal revenue

- 28) The following curve illustrates the fluctuations in real Gross Domestic Product in a certain economy with the time.

When the real output of this economy moves from A to B,

1. The economy achieves an optimum output and creates a positive output gap.
2. Unemployment increases and output is expanded.
3. Output is expanded and negative output gap is created.
4. Decrease in employment level with positive output gap.
5. Increase in real Gross Domestic Product and decrease in unemployment.



- 29) Which of the following is not a residential unit in Sri Lanka?
1. Sri Lankan students who study for 5 years in a University in Nepal.
 2. The Sri Lankan office staff works in the Sri Lankan embassy in the United States.
 3. The Sri Lankan staff works in the branch of Bank of Ceylon in the city of Rome, Italy.
 4. A Professional Singapore doctor who works in Sri Lanka for a long period of time in the hospital of Jayavardhana Pura.
 5. Sri Lankans who work in the Indian Embassy located in Sri Lanka.
- 30) A garment factory owner produces and sells Rs15, 000/= worth consumer items utilizing Rs.10500 worth imported cloth and other raw materials.
What would be the contribution of this producer towards the Gross Domestic Product of the country related to this production process?
1. Rs.20500
 2. Rs.25500
 3. Rs.15000
 4. Rs.10,500
 5. Rs.4500
- 31) The value of the Gross Domestic Product in Sri Lanka in 2019 is,
1. 88 billion of American Dollars
 2. 84 billion of American Dollars
 3. 82 billion of American Dollars
 4. 80 billion of American Dollars
 5. 76 billion of American Dollars

- 32) What could be the accurate adjustment to derive the Gross Domestic Product at basic price?
1. Wages + Rent income + interest + profit
 2. Workers remittances + Gross Operational Surplus + mixed income
 3. Wages + Gross Operational surplus + mixed income + other net tax on production.
 4. Private consumption expenditure + public consumption expenditure + Gross domestic investment + net exports + other net tax on production
 5. Employee compensation + Gross operational surplus + mixed income + next tax on product
- 33) Assume in a certain economy, the nominal national income, price level and population are increased by 8%, by 5% and by 4% respectively.
According to given information which of the following would accurate regarding the real national income and per capita real national income?

<u>Real national income</u>	<u>per capita real national income</u>
Increases	Decreases
Decreases	Decreases
Increases	Increases
Decreases	Increases
Remains constant	Reduces

- 34) What should be the value of National Savings of this economy according to given information?

<u>Items.</u>	<u>Value rupee in billion</u>
Total consumption expenditure	4800
Government consumption expenditure	400
Disposable Gross national income	5400
Net Exports	300
Net foreign currency transfers	800

1. 500 rupee in billions
2. 600 rupee in billion
3. 1100 rupees in billion
4. 1200 rupees in billion
5. 5000 rupees in billion

- 35) In a simple economy the savings function is, $S = -600 + 0.2 Y$.
Which of the following would be accurate according to given information?
1. The Marginal propensity to save is increased due to increase in income.
 2. The marginal propensity to consume is increased due to increase in income.
 3. The average propensity to consume is increased when income is increased
 4. The average propensity to save is increased when income is increased.
 5. Savings would be negative at each of the income level.

- 36) What do you mean by the macro-economic equilibrium?
1. A condition that savings of the economy equal to the investment level.
 2. A condition that the trade deficit is minimized maintaining a stable price level.
 3. A condition that the aggregate output level is maintained without fluctuations of an economy .
 4. A condition that price level remains constant in goods and factor markets of an Economy.
 5. A condition that the recessionary output gap cannot be found in an economy.

- 37) The consumption function of a closed economy that the government is absent is $C = 400 + 0.9 Y$. What would be the increasing consumption expenditure of this economy if the investment expenditure is increased by 200 million rupee?
1. 580 million rupee
 2. 600 million rupee
 3. 1800 million rupees
 4. 2000 million rupees
 5. 2200 million rupees

- 38) When the consumption function of a household moves below the 45 degree of equal income line,
1. Dissavings are created
 2. The increased income is entirely saved
 3. The increased income is entirely consumed.
 4. A certain proportion of income is saved
 5. The consumption exceeds the disposable income

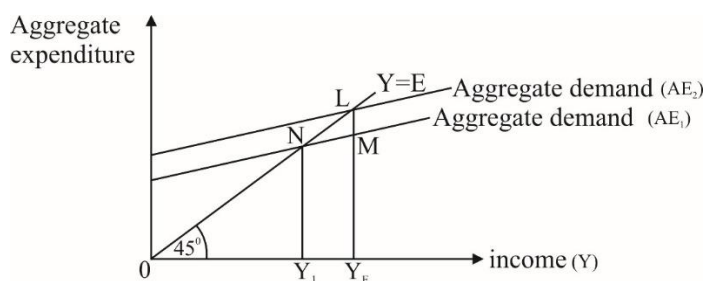
- 39) Assume, certain information provided for the equilibrium of an Open Economy.

<u>Items.</u>	<u>Rs. in million</u>
Total withdrawal of the economy	2400
Value of the import	400
Investments	700
Government expenditure	1400

What would be the value of net exports of this economy?

1. -100 million rupee
 2. 100 million rupee
 3. 200 million rupee
 4. 300million rupee
 5. -400 million rupee
- 40) Which of the following would cause to expand the gross domestic product of an economy?
1. Increase in both government purchases and tax charges by 100 billion rupee
 2. Decrease in both government purchases and tax charges by hundred billion rupee.
 3. Increase in tax by 100 billion rupee
 4. Decreasing government purchases by hundred billion rupee
 5. Decrease in net exports by hundred billion rupee

- 41) The behavior of macroeconomic variables illustrated by the below diagram.
Assume, the full employment output is Y_f and equilibrium national income is Y_1 . The LM gap of the diagram shows the,



1. Inflationary gap
 2. Negative output gap
 3. Positive output gap
 4. The gap between real output and potential output
 5. Deflationary gap
- 42) Which of the following is the most liquid asset?
1. Fixed assets
 2. Treasury bonds
 3. Demand deposit
 4. Treasury bills
 5. Savings deposit

- 43) What would be the main reason that money can be distinguished from other assets?
1. Ability of doing transactions
 2. Perfect liquidity
 3. Store of value
 4. Deferred payment
 5. Common acceptability
- 44) Which of the following is a liability of the commercial bank?
1. Time and saving deposit
 2. Discounted bills
 3. Cash in hand
 4. Loans and investments
 5. Deposits in the central bank
- 45) What would be the value of the multiplier if the statutory reserve ratio imposed by the central bank is 40%?
1. $K = 20$
 2. $K = 10$
 3. $K = 5$
 4. $K = 4$
 5. $K = 2.5$
- 46) Disinflation of an economy means,
1. Continuous decrease in general price level of an economy
 2. Persistent rise in average price level of an economy.
 3. Increase in the amount of inflation rate of an economy
 4. Decrease in the rate of inflation in an economy
 5. Deflating the average price level of an economy.
- 47) Assume, 10000 rupees is deposited in a certain commercial bank in a hypothetical economy. When the credit creation process is over, what would be the total deposits that banking system can be created if statutory reserve ratio is 20%?
1. Rs.20000
 2. Rs. 25000
 3. Rs.100000
 4. Rs.40000
 5. Rs.50000
- 48) Pure public good is
1. A good that has non rivalry and non-excludability in consumption.
 2. A good that has rivalry and excludability in consumption.
 3. The goods that efficiently supplied by the market
 4. Good that has positive externalities in consumption
 5. Good that has unlimited supply at zero price
- 49) Equal income earners undergone for equal rate of tax due to
1. The simplicity of taxation
 2. The neutrality of taxation
 3. The vertical equity of taxation
 4. The horizontal equity of taxation
 5. The efficiency of taxation
- 50) What would be the biggest component of current expenditure at present in Sri Lanka?
1. Payments done on covid-19
 2. Payment on fertilizer subsidy
 3. Expenditure made on Pension Payment
 4. Interest payments
 5. Payments done on wages and salaries

Index No :

Three Hours

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

01.
 - i) Define economic resources and classify them according to economists. (4)
 - ii) "The non-payment of price for the consumption of a certain good always implies a non-economic good." Explain. (4)
 - iii) How to differ a free market economic system from the centrally planned economy system? (4)
 - iv) What do you mean by any point which lies on the production possibilities curve? (2)
 - v) Explain the given situations using relevant production possibilities curves.
 - a. A shift in production possibilities curve.
 - b. The economy lies at a point which is left to the production possibilities curve.
 - c. The ability of consuming the point lies outside the production possibility curve. (6)
02.
 - i) Illustrate the relationship between price and quantity demanded using a relevant diagram (4)
 - ii) What are the factors which are assumed to be constant in deriving a market supply curve (4)
 - iii) The demand and supply equations of a certain good in a competitive market are given as below.
$$Q_d = 100 - 4P$$
$$Q_s = -30 + 6p$$
 - a. Derive the demand and supply curves using given equations. (2)
 - b. Mark the equilibrium price and quantity (1)
 - c. Calculate the price demand elasticity and price supply elasticity at the equilibrium (2)
 - iv) When once income is Rs.1000 rupees the quantity demanded is 500 and due to increase in his income up to 1100 the quantity demanded is increased by 100.
Calculate income demand elasticity according to the given information and mention the type of the good with reasons. (3)
 - v) Show the following situations using relevant diagrams and explain the movements of price and quantity in brief.
 - a) Decrease in supply with an equal percentage of increase in demand
 - b) Increase both demand and supply with an equal percentage (4)

03. i) Mention two ways that the market is intervened by the government. (2)
 ii) Identify the different types of tax imposed on goods and explain them in brief. (4)
 iii) Using a relevant diagram, show a situation of imposing a unit tax on a certain good that has inelastic demand and explain the share of tax burden in between consumer and producer. (4)
 iv) The demand and supply table of a certain market is as follows.

Price	Quantity demand	Quantity supply	Supply after tax
10	500	100	
20	400	200	
30	300	300	
40	200	400	
50	100	500	

- a. Due to imposition of 20 rupee of unit tax on this commodity what would be the quantity supplied after tax? Complete the table. (1)
 b. Draw the demand and supply curves related to above information and write down equilibrium price and quantity. (2)
 c. Draw the supply curve after tax and point out new equilibrium price and quantity. (3)
 d. Calculate the decrease in consumer surplus and producer surplus due to tax (4)
04. i) Give two reasons for the economic inefficiency created due to maximum price policy. (2)
 ii) The rationing of scarce goods is possible due to maximum price policy. Mention three of non-price rationing techniques. (3)
 iii) The demand and supply equations of the related curves in a certain market are given as below.

$$Q_d = 60 - 2p$$

$$Q_s = -10 + 3p$$
 a. If Rs. .5/= of unit subsidy is provided on this good, calculate the price consumer pays and the price producer is received using equations. (2)
 b. Draw the demand and supply curves for related equations. (2)
 c. Write down equilibrium price and quantity. (2)
 d. Draw the new supply curve created due to subsidy in the same diagram and derive the new equilibrium price and quantity. (4)
 e. Show the amount of subsidy in the diagram. (1)
 f. Calculate the consumer and producer advantages due to subsidy. (4)
05. i) What are the different market structures in an economy? Name them. (4)
 ii) Mention four salient features in a perfectly competitive market structure. (4)
 iii) In the short run, a firm in the perfectly competitive market engages in the production by earning a variety of profits. Point out three situations among them. (3)
 iv) How can you point out the functions performed by the profit (economic profit) in a market economy? (5)
 v) Using hypothetical data, draw a diagram and calculate the short run economic profit of a firm in a perfectly competitive market. (4)

Section B

06. i) Explain the concepts of gross domestic product and gross national income. (4)
- ii) What are the components considered in calculating personal income but excluded in calculating national income? (2)
- iii) As primary income components, explain the difference between gross Operational surplus and mixed income. (4)
- iv) Assume the autonomous consumption expenditure and the marginal propensity to consume of a simple economy is given as 400 billion rupee and 0.8 respectively.
- a. If the disposable income of this economy is 5000 rupees in billion, what would be the Average Propensity to Save and Average Propensity to Consume? (4)
- b. If the disposable national income of above economy is 5000 rupee in billion, calculate the investment expenditure of this economy. (2)
- c. Present the equilibrium output of this economy using an aggregate income -expenditure diagram. (2)
- d. What should be the value of investment multiplier? (2)
07. i) Mention whether the followings are included into the production boundary. Give reasons.
- a. Sawing the school uniform of the child by mother.
- b. non produced non-financial assets
- c. Interest paid on treasury bonds.
- d. Free education given by the government (4)
- ii) Certain information for a hypothetical economy is given as below. (Value rupee in billion)
- | | |
|--------------------------------------|-----|
| Gross domestic expenditure | 430 |
| Total consumption expenditure | 360 |
| Export earnings | 250 |
| Import expenditure | 280 |
| Foreign savings | 200 |
| Fixed capital consumption | 50 |
| Other tax less subsidy on production | 20 |
- Calculate followings using given information.
- a. Gross Domestic Product as market price
- b. Domestic savings
- c. Disposable gross national income
- d. Total resources (2×4=8)
- iii) Introduce the concepts of autonomous Savings and marginal propensity to save. (4)
- iv) In a certain economy that taxes are not being charged, the consumption expenditure is Rs.800 at Rs.2000 of income and when the income is increased up to Rs.2500 the consumption expenditure is Rs.1175. Using the above information,
- a) Derive the consumption equation related for the consumption function. (2)
- b) If Rs.20/= of a fixed tax system is introduced by the government on the income of this economy, construct the consumption function after tax. (2)

08. i) What do you mean by money? (2)
 ii) What are the qualities of a good money? (4)
 iii) Illustrate the difference between the functions of money, as a medium of exchange and store of values. (4)
 iv) Discuss the difference between near money and money substitute (4)
 v) What do you mean by monetary base? What are the factors to determine the base money? (6)
09. i) Distinguish inflation deflation and disinflation in brief. (3)
 ii) What are the measurement used in Sri Lanka in measuring the inflation? (3)
 iii) What are the two main objectives of the Central Bank? (2)
 iv) Identify the alternative credit controlling techniques used by the central bank. (4)
 v) Assume an individual deposits Rs 20000 in a certain commercial bank in a banking system. If the statutory reserve ratio of this hypothetical economy 25%,
 a. What would be the excess reserves of this bank (2)
 b. Calculate the multiplier value. (2)
 c. Prepare the balance sheet of this bank if the excess reserves are lent and deposited in the same bank itself? (2)
 d. Prepare the consolidated balance sheet when the credit creation is completed. (2)
10. i) The resource allocation of a market economy is inefficient. What are the reasons for this market inefficiency? (4)
 ii) What are the four types of externalities? (4)
 iii) Explain the role of the government in a market economy. (4)
 iv) Name the measures that can be taken to minimise externalities. (4)
 v) What are the basic features of a good tax system? (4)

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