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ශ්‍රී ලංකා විභාග දෙපාර්තමේන්තුව ශ්‍රී ලංකා විභාග දෙපාර්තමේන්තුව ශ්‍රී ලංකා විභාග දෙපාර්තමේන්තුව ශ්‍රී ලංකා විභාග දෙපාර්තමේන්තුව ශ්‍රී ලංකා විභාග දෙපාර්තමේන්තුව
 இலங்கைப் பரீட்சைத் திணைக்களம் இலங்கைப் பரීட்சைத் திணைக்களம் இலங்கைப் பரීட்சைத் திணைக்களம் இலங்கைப் பரීட்சைத் திணைக்களம் இலங்கைப் பரීட்சைத் திணைக்களம்
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අධ්‍යයන පොදු සහතික පත්‍ර (උසස් පෙළ) විභාගය, 2021(2022)
 கல்விப் பொதுத் தராதரப் பத்திர (உயர் தர)ப் பரீட்சை, 2021(2022)
 General Certificate of Education (Adv. Level) Examination, 2021(2022)

ආර්ථික විද්‍යාව I
 பொருளியல் I
 Economics I

21 E I

පැය දෙකයි
 இரண்டு மணித்தியாலம்
 Two hours

Instructions:

- * Answer all the questions.
- * Write your **Index Number** in the space provided in the answer sheet.
- * Instructions are given on the back of the answer sheet. Follow them carefully.
- * In each of the questions from 1 to 50, pick one of the alternatives from (1), (2), (3), (4), (5) which is **correct or most appropriate** and mark your response on the answer sheet with a cross (x) in accordance with the instructions given on the back of the answer sheet.

1. A more complete short definition of economics would be that economics is the study of
 - (1) how employment opportunities in society could be created to make its citizens better off.
 - (2) how countries trade goods and services in a global market place.
 - (3) how goods and services are produced without damaging the environment.
 - (4) how unlimited resources are allocated among limited wants.
 - (5) how scarce resources are allocated to satisfy unlimited wants.
2. Production possibilities frontiers are linear because
 - (1) resources are being used fully and efficiently.
 - (2) of the Law of increasing opportunity costs.
 - (3) of inefficiencies in the economy.
 - (4) of constant opportunity costs.
 - (5) of non-homogeneous resources.
3. Which of the following is a fundamental feature of the free market economy?
 - (1) Strict government control of production
 - (2) More imports than exports
 - (3) Public ownership of resources
 - (4) Private property
 - (5) Prices and wages set by the government
4. What is **not** a benefit of division of labour?
 - (1) Increased flexibility of the workforce.
 - (2) Reduced total cost of producing goods and services.
 - (3) Increased productivity.
 - (4) Increased ability to introduce innovations.
 - (5) Increased income equality.
5. When the price of rice increases it is expected that the
 - (1) quantity demanded of rice increases.
 - (2) quantity supplied of rice decreases.
 - (3) quantity demanded of rice decreases.
 - (4) demand for rice decreases.
 - (5) supply of rice increases.

6. Suppose that textile is a key input in the production of wearing apparel. If the price of textile falls while all other variables are held constant, it is expected that the
- (1) demand for textile to rise.
 - (2) supply of wearing apparel to rise.
 - (3) supply of wearing apparel to fall.
 - (4) demand for wearing apparel to rise.
 - (5) demand for wearing apparel to fall.
7. The supply function of good X is given by the equation $Q_s = 8P$, where P is the price of the good and Q_s is the quantity supplied. According to this equation, the price elasticity of supply of good X is
- (1) 1.0
 - (2) -1.0
 - (3) 8.0
 - (4) -8.0
 - (5) 0.1
8. Suppose the market for avocado faces two simultaneous events. When there is a severe drought affecting the supply of avocado, findings of a research reported that avocado contains medicinal properties which may help avoiding cancer. How will these two events affect the equilibrium price and equilibrium quantity in the avocado market?

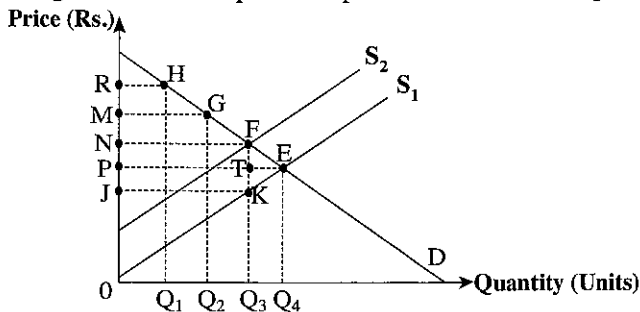
	Equilibrium Price	Equilibrium Quantity
(1)	Increases	Decreases
(2)	Increases	Increases
(3)	Decreases	Decreases
(4)	Increases	Indeterminate
(5)	Decreases	Indeterminate

9. Suppose the market for good X is currently in equilibrium. Which of the following events would **not** cause decrease in both equilibrium price and equilibrium quantity of good X?
- (1) An increase in the price of good Y which is a complement for good X.
 - (2) A decrease in the price of good Y which is a substitute for good X.
 - (3) A decrease in consumer income and good X is a normal good.
 - (4) An increase in consumer income and good X is an inferior good.
 - (5) An increase in the number of buyers in the market for good X.
10. The table below shows the daily market supply and demand for green leaves in a small town.

Price per kilogram (Rs.)	Quantity demanded per day (kg.)	Quantity supplied per day (kg.)
60	220	310
55	240	300
50	260	290
45	280	280
40	300	270

- Suppose supply of green leaves falls by 60 kg at all prices due to increase in transport costs. What is the new equilibrium price of green leaves?
- (1) Rs. 60
 - (2) Rs. 55
 - (3) Rs. 50
 - (4) Rs. 45
 - (5) Rs. 40
11. Suppose a rise in the price of a good from Rs. 40 to Rs. 50 causes a decrease in quantity demanded from 1600 to 1400 units. In this range of the demand curve, the price elasticity of demand is
- (1) - 6.0
 - (2) - 3.0
 - (3) - 0.7
 - (4) - 0.6
 - (5) - 0.3
12. The cost to the government of introducing a guaranteed minimum price for a commodity above the free market equilibrium price will be greatest if,
- (1) demand and supply are both price elastic.
 - (2) demand and supply are both price inelastic.
 - (3) demand is price elastic and supply is price inelastic.
 - (4) demand is price inelastic and supply is price elastic.
 - (5) demand and supply both have unitary price elasticity.

13. The diagram below displays a market for good X. The competitive market equilibrium is at point E. Suppose the government imposes a per unit tax on the production of good X.



Which areas of the diagram show the revenue collected by the government and the deadweight loss due to tax?

	Tax Revenue	Deadweight Loss
(1)	P N F T	F T E
(2)	O N F Q ₃	K T E
(3)	J P T K	K F E
(4)	J N F K	K F E
(5)	J N F K	K T E

14. Suppose in a competitive market, the equilibrium price of a certain product is Rs. 50 per unit. Now the government intervenes into this market and a minimum price is set at Rs. 60 per unit. If the demand function of an individual buyer in the market is $Q_d = 240 - 3P$, what would be the impact of minimum price on consumer surplus?

- (1) increases by Rs. 600
- (2) decreases by Rs. 600
- (3) increases by Rs. 750
- (4) decreases by Rs. 750
- (5) decreases by Rs. 1350

15. The table below shows total cost for a firm at different levels of output in the short run.

Output level	Total cost (Rs.)	Output Level	Total Cost (Rs.)
0	100	4	160
1	120	5	190
2	130	6	238
3	138	7	296

According to above information, What is the average variable cost of producing 6 units of output?

- (1) Rs. 23
- (2) Rs. 28
- (3) Rs. 35
- (4) Rs. 36
- (5) Rs. 48

16. In the short run when a perfectly competitive firm operates at its profit maximising level of output of 1000 units, market price is Rs. 120 per unit, variable cost per unit is Rs. 100 per unit and fixed cost is Rs. 40 per unit. Other things being equal, the short run behaviour of the firm should be to

- (1) reduce output in order to reduce costs.
- (2) increase the price over Rs. 140 per unit.
- (3) continue to produce as it operates in the short run.
- (4) increase output level in order to reduce average fixed cost.
- (5) shut down immediately as average total cost is above the market price.

17. Which of the following is true for a perfectly competitive firm in the short run?

- (1) The firm always earns positive economic profit.
- (2) The firm always earns a normal profit.
- (3) The firm shuts down when the price falls below the average total cost.
- (4) The firm maximises profit by producing at the point where the price equals marginal revenue.
- (5) The firm may earn negative, positive or normal profit.

18. Which of the following industries in Sri Lanka is most likely to be monopolistically competitive?

- (1) Tire manufacturing
- (2) Television broadcasting
- (3) Soft drinks
- (4) Newspaper
- (5) Beauty salons

19. Economic recession is characterised by all of the following **except**
- (1) decline in investment and employment.
 - (2) increase in the price of inputs due to increased demand for inputs.
 - (3) investors confidence is shaken.
 - (4) demand for goods and services decline.
 - (5) existence of excess production capacity of industries.
20. A paddy farmer sells paddy to a rice miller for Rs. 10 000 and the rice miller sells rice to a rice flour miller for Rs. 12 000 and the flour miller sells flour to a noodles manufacturer for Rs. 15 000 and the noodles manufacturer sells noodles to consumers for Rs. 20 000. In this production process, what is the total value added by rice miller and noodles manufacturer?
- (1) Rs. 10 000 (2) Rs. 7 000 (3) Rs. 5 000 (4) Rs. 3 000 (5) Rs. 2 000
21. Which of the following items is **not** included when estimating Gross National Income by income method?
- (1) Compensation of employees (2) Mixed income
 - (3) Consumption of fixed capital (4) Other taxes less subsidies on production
 - (5) Employee contribution to Employee's Provident Fund
22. In 2019, Sri Lanka's Gross Domestic Product at current market price was US Dollars
- (1) 79 billion. (2) 80 billion. (3) 83 billion. (4) 84 billion. (5) 88 billion.
23. Which of the following is the correct relationship between multipliers?
- (1) Investment multiplier > Tax multiplier = Balanced budget multiplier.
 - (2) Tax multiplier = Investment multiplier < Balanced budget multiplier.
 - (3) Tax multiplier > Investment multiplier > Balanced budget multiplier.
 - (4) Tax multiplier > Investment multiplier = Balanced budget multiplier.
 - (5) Investment multiplier > Tax multiplier > Balanced budget multiplier.
24. Suppose in a closed economy without government sector, aggregate saving function is $S = -100 + 0.25 Y$ and investment (I) is Rs. 800 million. What is the equilibrium level of national income in this economy?
- (1) Rs. 1 200 million. (2) Rs. 2 800 million. (3) Rs. 3 200 million.
 - (4) Rs. 3 600 million. (5) Rs. 3 900 million.
25. Which of the following is an example of a leakage from the circular flow of income?
- (1) Investment (2) Transfers (3) Imports
 - (4) Government purchases (5) Exports
26. Assume that in a given time period, the general price level of a country tripled. In the same period, the income level of a certain household rose from Rs. 40 000 to Rs. 80 000. What happened to this household's nominal and real income?

	Nominal Income	Real Income
(1)	Increased	Decreased
(2)	Decreased	Decreased
(3)	Increased	Increased
(4)	Decreased	Increased
(5)	Increased	Unchanged

27. Households demand more money balances as an asset when
- (1) general price level increases.
 - (2) nominal National income falls.
 - (3) nominal National income increases.
 - (4) nominal interest rate falls.
 - (5) bond prices fall.

28. Which of the following is most liquid?

- (1) Fixed deposits (2) Government securities (3) Demand deposits
(4) Real estate (5) Company shares

29. Suppose a customer makes a deposit of Rs. 400 million with a commercial bank which keeps Rs. 80 million as statutory reserve for this deposit. All else constant, how much the bank have in excess reserves? What is the size of the deposit multiplier?

	Excess Reserves (Rs. million)	Deposit Multiplier
(1)	400	0.02
(2)	400	0.2
(3)	320	20.0
(4)	320	5.0
(5)	320	0.2

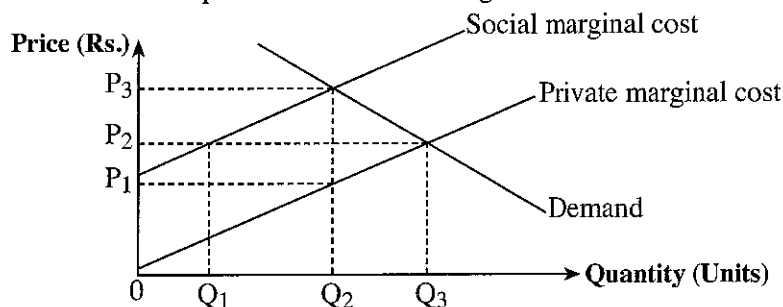
30. Which of the following will result an increase in the money supply?

- (1) An increase in the Standing Deposit Facility Rate (SDFR)
(2) Selling bonds to the commercial banks by the Central Bank
(3) An increase in the discount rate
(4) A decrease in the external assets of the Central Bank
(5) A decrease in the statutory reserve ratio

31. The main characteristics of common resources are,

- (1) rivalry in consumption and non-excludability.
(2) non-rivalry in consumption and excludability.
(3) non-rivalry in consumption and non-excludability.
(4) ability to regulate and excludability.
(5) rivalry in consumption and excludability.

32. The diagram below shows private and social marginal cost curves and the market demand curve.



If this market is an unregulated free market, then

- (1) the level of output is socially optimum, but price is too low.
(2) the level of output is less than socially optimum level, but price is too low.
(3) the allocation of resources will be efficient.
(4) too much output will be produced.
(5) too little output will be produced.

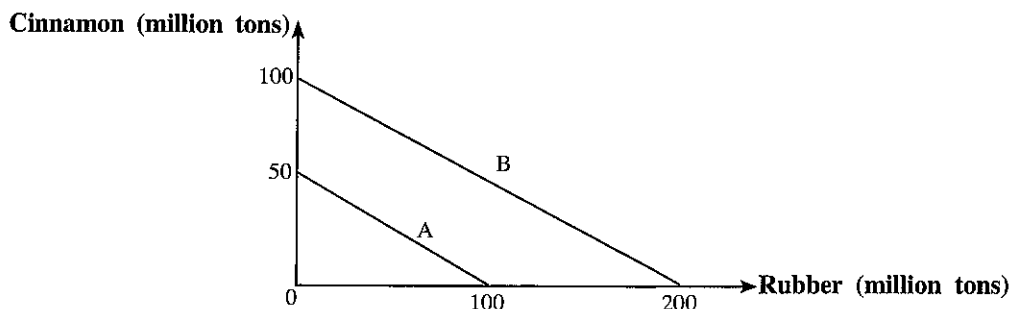
33. The Primary Balance of the budget is the difference between

- (1) total expenditure and total recurrent expenditure of the government.
(2) budget deficit and debt service payments of the government.
(3) total revenue and total expenditure including interest payment on its debt.
(4) total revenue including grants and total capital expenditure including interest payments on its debt.
(5) total revenue including grants and total recurrent expenditure including interest payments on its debt.

34. The share of total outstanding domestic and foreign debt of the central government of Sri Lanka as a percentage of Gross Domestic Product in 2019 were respectively

- (1) 44.1% and 42.6% (2) 48.2% and 40.3% (3) 35.4% and 46.6%
(4) 42.7% and 38.4% (5) 42.2% and 30.0%

35. Which of the following considered a supply-side policy?
- (1) A reduction in the government budget deficit
 - (2) Granting investment tax credits for businesses to encourage investment
 - (3) The imposition of tariff on imported goods
 - (4) Transfer of privately owned businesses to the government sector
 - (5) An increase in government spending that would lead to increased aggregate demand
36. The diagram shows production possibility curves for two countries, A and B. Country A can produce 100 million tons of rubber or 50 million tons of cinnamon. Country B can produce 200 million tons of rubber or 100 million tons of cinnamon.



According to the theory of comparative advantage,

- (1) both countries can benefit by specialisation.
 - (2) country B has a higher opportunity cost than country A in producing cinnamon.
 - (3) country A has a higher opportunity cost than country B in producing cinnamon.
 - (4) country B exports cinnamon to country A.
 - (5) trade between country A and country B cannot take place.
37. Which of the following options correctly indicates the composition of imports in Sri Lanka at present?

	Consumer goods	Intermediate goods	Investment goods
(1)	20%	57%	23%
(2)	22%	60%	18%
(3)	24%	45%	31%
(4)	25%	51%	24%
(5)	28%	49%	23%

38. The table below shows the record of export price index and import price index of a country for a period of six years.

Year	Export price index	Import price index	Year	Export price index	Import price index
1	100	100	4	116	120
2	105	108	5	129	129
3	112	110	6	150	130

In which year were the terms of trade most favourable relative to year 1?

- (1) Year 2
 - (2) Year 3
 - (3) Year 4
 - (4) Year 5
 - (5) Year 6
39. Suppose a Sri Lankan investor purchased shares in a manufacturing company in Japan for \$ 10 million. How would this transaction be recorded in the Balance of Payments in Sri Lanka according to the principle of double entry system?

	Debit	Credit
(1)	Capital account	Primary income account
(2)	Other investment account	Portfolio investment account
(3)	Portfolio investment account	Other investment account
(4)	Financial derivative account	Direct investment account
(5)	Capital account	Portfolio investment account

40. The table below shows some selected data from a Balance of Payments statement of a country.

Item	Rs. Billion
Exports (goods)	600
Imports (goods)	800
Services (net)	30
Primary income (net)	-80
Secondary income (net)	150
Capital account (net)	60

According to the information in the table, which statement is correct for the Balances of Payments situation of this country?

- (1) There is a deficit of Rs. 180 billion on the trade balance.
 - (2) There is a surplus of Rs. 140 billion on the capital and financial account.
 - (3) There is a surplus of Rs. 100 billion on the current account.
 - (4) There is a deficit of Rs. 40 billion on the financial account.
 - (5) There is a surplus of Rs. 40 billion on the financial account.
41. According to the Marshall-Lerner condition, in which of the following situations the current account of the Balance of Payments will improve following a depreciation of exchange rate?
- (1) Price elasticity of imports = - 0.6 and price elasticity of exports = - 0.4
 - (2) Price elasticity of imports = - 0.8 and price elasticity of exports = - 0.7
 - (3) Price elasticity of imports = - 0.3 and price elasticity of exports = - 0.5
 - (4) Price elasticity of imports = - 0.4 and price elasticity of exports = - 0.2
 - (5) Price elasticity of imports = - 0.6 and price elasticity of exports = - 0.3
42. In a floating exchange rate system,
- (1) the Balance of Payments will always be in surplus.
 - (2) the Balance of Payments will always be in deficit.
 - (3) completely insulate the economy from external forces.
 - (4) the exchange rate should adjust to equate demand and supply of foreign exchange.
 - (5) the government intervenes to influence the determination of the exchange rate.
43. Which of the following would likely contribute to achieve faster rates of economic growth?
- (1) More rapid consumption of natural resources.
 - (2) Protective trade policies.
 - (3) Higher government funding for research and development.
 - (4) Increase in consumer subsidies.
 - (5) Higher taxes on households and firms.
44. The key social and economic dimensions captured in the Human Development Index are
- (1) long and healthy life, education and decent standard of living.
 - (2) longevity, adult literacy and per capita income.
 - (3) computer literacy, rate of employment, and level of poverty.
 - (4) calorie consumption, income inequality and human resource development.
 - (5) gender equality, computer literacy and food security.
45. The table below shows the income shares by quintiles of income receivers in a country in 2010 and 2020.

Year	1 st Quintile	2 nd Quintile	3 rd Quintile	4 th Quintile	5 th Quintile
2010	5%	10%	15%	25%	45%
2020	4%	8%	12%	26%	50%

According to the table it may be concluded that over the ten-year period

- (1) there has been an improvement in resource allocation in the country.
- (2) the distribution of income became more unequal.
- (3) the distribution of wealth became more unequal.
- (4) the economic condition of low income receivers has improved.
- (5) there has been a decline in the productivity of low income receivers.

46. Some of the typewriter operators without computer skills lost their jobs as computers started to dominate the field of word processing. This is an example of which of the following unemployment category?
- (1) Frictional unemployment
 - (2) Disguised unemployment
 - (3) Structural unemployment
 - (4) Seasonal unemployment
 - (5) Cyclical unemployment
47. Sustainable development covers three main spheres, namely
- (1) environment, economy and society.
 - (2) environment, economy and equity.
 - (3) environment, hunger and society.
 - (4) environment, peace and poverty.
 - (5) environment, partnership and society.
48. The table below summarises the labour market situation in a hypothetical economy.

Year	Working age population (million)	Employed population (million)	Unemployed population (million)
2018	50	24	6
2020	60	32	8

Based on this information which of the following is an accurate statement?

- (1) The rate of unemployment has increased from 2018 to 2020.
 - (2) The rate of unemployment has decreased from 2018 to 2020.
 - (3) The labour force participation rate has increased from 60% in 2018 to 67% in 2020.
 - (4) The labour force participation rate has decreased from 2018 to 2020.
 - (5) Although the population has grown the labour force has remained constant from 2018 to 2020.
49. According to the country economic classification, in which year was Sri Lanka assigned a upper middle income country status by the World Bank?
- (1) 2016 (2) 2017 (3) 2018 (4) 2019 (5) 2020
50. The three most heavily loss-making state-owned enterprises in Sri Lanka at present are
- (1) Ceylon Electricity Board, National Lotteries Board and State Engineering Corporation.
 - (2) Sri Lankan Airlines Ltd., Ceylon Electricity Board and Ceylon Petroleum Corporation.
 - (3) Sri Lankan Airlines Ltd., Sri Lanka Ports Authority and Lanka Sathosa Ltd.
 - (4) Ceylon Electricity Board, Sri Lanka Insurance Corporation and State Pharmaceuticals Corporation.
 - (5) Sri Lanka Transport Board, National Savings Bank and Lanka Sugar Company Ltd.

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 Department of Examinations, Sri Lanka Department of Examinations, Sri Lanka Department of Examinations, Sri Lanka Department of Examinations, Sri Lanka Department of Examinations, Sri Lanka
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අධ්‍යයන පොදු සහතික පත්‍ර (උසස් පෙළ) විභාගය, 2021(2022)
 கல்விப் பொதுத் தராதரப் பத்திர (உயர் தர)ப் பரீட்சை, 2021(2022)
 General Certificate of Education (Adv. Level) Examination, 2021(2022)

ආර්ථික විද්‍යාව II
 பொருளியல் II
 Economics II

21 E II

පැය තුනයි
 மூன்று மணித்தியாலம்
 Three hours

අමතර කියවීමේ කාලය - මිනිත්තු 10 යි
 மேலதிக வாசிப்பு நேரம் - 10 நிமிடங்கள்
 Additional Reading Time - 10 minutes

Use additional reading time to go through the question paper, select the questions you will answer and decide which of them you will prioritise.

Instructions:

- * Answer five questions only, selecting minimum of two questions from Sub section 'A' and two questions from Sub section 'B'.
- * Graph papers will be provided.

Sub section 'A'

(Select minimum of two questions from this section.)

1. (i) Outline **two** economic characteristics of 'land' as a factor of production. (04 marks)
- (ii) "A 500 acre land in the outskirts of a city is considered by the environmental authority to be preserved in its natural state as this area is home for many endangered species. The urban development authority has planned to build an urban housing complex on the land." Identify and explain the elements of **scarcity**, **choice** and **opportunity cost** which are involved in this case. (2 × 3 = 06 marks)
- (iii) Why is production possibilities curve negatively sloped and bowed out? (04 marks)
- (iv) (a) Define mixed economy. (02 marks)
- (b) State **four** examples of economic activities which support the view that 'Sri Lanka is a mixed economy'. (04 marks)
2. (i) Outline **two** possible exceptions to the Law of demand. (04 marks)
- (ii) Suppose a consumer buys 22 litres of petrol when the price is Rs. 140 per litre and when the price increases to Rs. 160 per litre, the consumer buys 18 litres. Calculate the price elasticity of demand of this consumer. (04 marks)
- (iii) If the price of an inferior good falls, assuming all other things remain constant, will the quantity demanded of the good decrease or increase? Explain your answer with reference to the substitution and income effects. (06 marks)
- (iv) Explain with the aid of diagrams, **three** factors that would cause a shift in the supply curve. (06 marks)

3. (i) Define consumer surplus and producer surplus. (04 marks)
- (ii) Explain using a diagram how a price ceiling creates a deadweight loss. (04 marks)
- (iii) Suppose the government has offered onion farmers a price support of Rs. 100 per kilogram and the excess supply is purchased by the government at the support price. Market demand and supply equations are given below.
- Demand: $Q_D = 240 - 2P$ Supply: $Q_S = -210 + 3P$
- (a) How much does this price support programme cost the government? (04 marks)
- (b) What is the amount of consumer surplus and producer surplus after the price support? (04 marks)
- (c) Calculate the deadweight loss due to price support. (04 marks)
4. (i) Define the concept of 'normal profit'. (02 marks)
- (ii) Classify the following expenditure into fixed cost and variable cost.
- (a) Raw material
- (b) Rent of the factory buildings
- (c) Interest on borrowings
- (d) Fertilisers (1 × 4 = 04 marks)
- (iii) Compare perfectly competitive market structure with monopoly. (04 marks)
- (iv) "In the short run firms may stay in the industry even if they are making a loss." Explain this statement. (04 marks)
- (v) "A computer software engineer who was earning a salary of Rs. 200 000 per month decided to become an entrepreneur and started her own software development firm in which she earns Rs. 500 000 per month."
- (a) What is this entrepreneur's transfer earning? (03 marks)
- (b) Does this entrepreneur earn an economic rent? Explain your answer. (03 marks)
5. (i) In national income accounting, indicate the institutional sector to which the following units belong.
- (a) Fishermen's Cooperative Society
- (b) Southern Provincial Council
- (c) National Chamber of Commerce
- (d) Sri Lanka Insurance Corporation (1×4 =04 marks)
- (ii) Consider the following macroeconomic data for an open economy.
- Gross Domestic Product (Y) = 500
- Consumption (C) = 350
- Taxes – Transfers (Net Taxes) = 20
- Investment (I) = 150
- Budget deficit = 120 (All figures are in billion Rupees.)
- What is the value of net exports in this economy? (04 marks)

(iii) Suppose in a hypothetical closed economy, equilibrium national income is Rs. 800 billion, Marginal Propensity to Consume (MPC) is 0.8 and the potential output level is Rs. 1 000 billion.

(a) Is this economy facing a recessionary gap or inflationary gap?

What is the size of this gap?

(02 marks)

(b) If the Government intends to remove this gap using direct taxes, what would be the required change in direct taxes?

(02 marks)

(iv) The table below gives some data related to national accounts of a country.

Item	Value (Rs. billion)
Gross value added at basic price	11 500
Net Primary Income from the rest of the world	-300
Taxes less subsidies on products	800
Consumption expenditure	8 500
Net current transfers from the rest of the world	900

Based on the above data compute the following.

(a) Gross Domestic Product

(b) Gross National Income

(c) Gross National Disposable Income

(d) Domestic Savings

(2×4 = 08 marks)

Sub section 'B'

(Select minimum of two questions from this section.)

6. (i) What are the main functions of money? (04 marks)

(ii) What are the factors that might affect the money creating potential of the banking system? (04 marks)

(iii) How does a commercial bank manage its assets structure in pursuing two conflicting goals? (06 marks)

(iv) What are the key features of the monetary policy adopted by the Central Bank of Sri Lanka to address the financial distress of households and enterprises created by COVID-19 pandemic? (06 marks)

7. (i) Why in a market economy, some goods and services are over-consumed and some are under-consumed? (04 marks)

(ii) Outline the main differences between pure private goods and pure public goods. (04 marks)

(iii) State two arguments in favour of privatisation and two arguments against privatisation. (04 marks)

(iv) Explain the economic consequences of widening budget deficit. (08 marks)

8. (i) Suppose that, with the same resources, country A can produce either 40 Cars or 40 tons of Food and country B can produce either 60 Cars or 30 tons of Food.
- (a) What is each country's internal exchange rate in the absence of specialisation? (02 marks)
- (b) Are there comparative advantages in these countries in the production of above goods? Explain the answer. (04 marks)
- (ii) What is the difference between net exports and the current account balance in the Balance of Payments statement? (04 marks)
- (iii) Outline **four** main factors cause the demand and supply curves to shift in the foreign exchange market (04 marks)
- (iv) What is the role of Central Bank in the following exchange rate systems?
- (a) fixed exchange rate system (03 marks)
- (b) managed floating exchange rate system (03 marks)
9. (i) What is economic growth? How does it differ from rate of economic growth? (04 marks)
- (ii) "Development is a multi-dimensional process". Explain. (04 marks)
- (iii) Compare the sectoral composition of total employment (agriculture, industry and services) with the sectoral composition of Gross Domestic Product of Sri Lanka at present. (06 marks)
- (iv) What is Sri Lanka's current position in the following key indices guiding investors?
- (a) Ease of Doing Business Index (02 marks)
- (b) Global Competitiveness Index (02 marks)
- (c) Corruption Perception Index (02 marks)
10. (i) What is a currency swap agreement? Give an example from Sri Lanka. (04 marks)
- (ii) Outline the key problematic areas in the Sri Lankan economy which hinder investor confidence and competitiveness. (04 marks)
- (iii) What are the policy recommendations you may suggest to overcome the foreign exchange crisis which Sri Lankan economy is facing at present? (04 marks)
- (iv) Briefly describe using appropriate data, how the Sri Lankan economy has performed, in the recent years with respect to the **rate of economic growth, budget deficit, trade deficit and public debt.** (08 marks)

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