

AL/2024/21/E-I

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 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, 2024
 கல்விப் பொதுத் தராதரப் பத்திர (உயர் தர)ப் பரீட்சை, 2024
 General Certificate of Education (Adv. Level) Examination, 2024

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** (×) in accordance with the instructions given on the back of the answer sheet.

1. The core difference between normative economics and positive economics is that
 - (1) normative economics provides descriptive analysis while positive economics offers policy prescriptions.
 - (2) positive economics is fact-based while normative economics is value-based.
 - (3) normative economics is based on empirical evidences while positive economics is based on subjective opinions.
 - (4) positive economics relies on value-judgements while normative economics is objective.
 - (5) positive economics focuses on ethics while normative economics deals with testable hypotheses.
2. Which of the following statements best explains the concept of 'capital' in economics?
 - (1) Capital represents human labour and innovation in the production process.
 - (2) Capital refers to any financial investment made by individuals.
 - (3) Capital includes only the tangible assets used for production, such as machines and buildings.
 - (4) Capital refers to financial resources used to fund production.
 - (5) Capital refers to produced means of production.
3. A movement along the Production Possibilities Curve from one point to another involves
 - (1) no change in opportunity cost or productive efficiency.
 - (2) a change in opportunity cost but no change in productive efficiency.
 - (3) a change in productive efficiency but no change in opportunity cost.
 - (4) no change in opportunity cost or allocative efficiency.
 - (5) a change in productive efficiency but no change in allocative efficiency.
4. A key feature of the socialist economic system is
 - (1) profit maximisation as the main objective.
 - (2) private ownership of all means of production.
 - (3) public ownership of key industries and resources.
 - (4) minimal government intervention into the economy.
 - (5) the government plays no role in economic decisions.
5. The factor that can cause a movement along the supply curve is a change in
 - (1) the cost of production.
 - (2) the price of the good itself.
 - (3) consumer income.
 - (4) technology.
 - (5) the number of suppliers.

6. All of the following cause a rightward shift in the market demand curve for a normal good **except**
- (1) an increase in the price of the substitute product.
 - (2) an increase in consumers' income.
 - (3) a decrease in the price of a complementary product.
 - (4) a decrease in the price of the good itself.
 - (5) an increase in the number of consumers in the market.
7. When the price of an inferior good falls while other things remain unchanged, consumers will demand
- (1) more because income effect dominates the substitution effect.
 - (2) less because the good is inferior.
 - (3) more because substitution effect and income effect reinforce each other.
 - (4) less because substitution effect is negative.
 - (5) more because substitution effect dominates the income effect.
8. Suppose good X and good Y are substitutes. What will be the effect on the equilibrium price and quantity of good X of an increase in the supply of good Y?

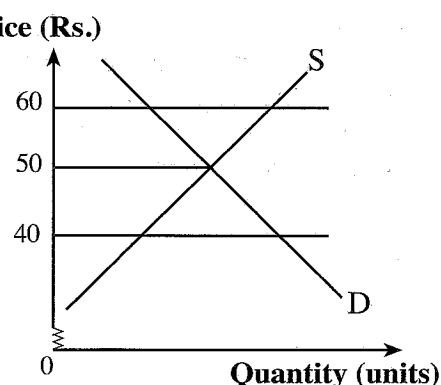
	Equilibrium Price of good X	Equilibrium Quantity of good X
(1)	increases	decreases
(2)	decreases	decreases
(3)	increases	increases
(4)	decreases	increases
(5)	increases	unchanged

9. Suppose a new technology has been introduced in the production of good X which is sold in a competitive market. If the new technology reduces the production cost of good X, what is the likely impact on consumer and producer surpluses?
- (1) Producer surplus will increase but consumer surplus will decrease.
 - (2) Consumer surplus will increase but producer surplus will decrease.
 - (3) Both consumer surplus and producer surplus will increase.
 - (4) Both consumer surplus and producer surplus will decrease.
 - (5) Consumer surplus will increase and producer surplus will not be affected.
10. The price elasticity of demand for a good will typically be high when a good is
- (1) a small share of consumer expenditure and is a complement of other goods.
 - (2) a necessity and perishable.
 - (3) a small share of consumer expenditure and is a substitute to other goods.
 - (4) a large share of consumer expenditure and is a substitute for other goods.
 - (5) an inferior and is a complement to other goods.
11. The cross price elasticity of demand
- (1) can indicate if a good is a necessity or an inferior.
 - (2) is closer to zero if the two goods are closely related.
 - (3) is greater than zero if the two goods are substitutes.
 - (4) is always negative because of the Law of Demand.
 - (5) is greater than zero if the two goods are complements.

12. Suppose a highly regulated economy has decided to move towards a market economy and removed government price controls in the markets. The diagram shows such a market where the government had initially set a maximum effective price.

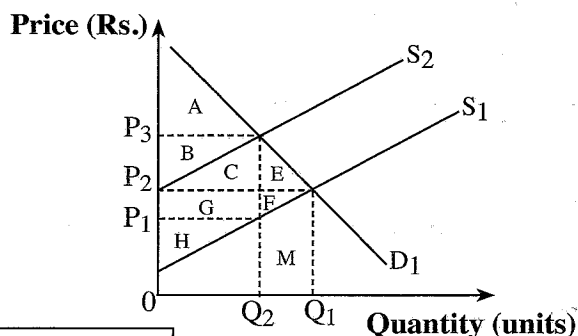
What effect was there on price and quantity when the government removed the maximum price?

	Price	Quantity
(1)	falls from Rs. 60 to Rs. 40	removes shortage
(2)	falls from Rs. 50 to Rs. 40	removes surplus
(3)	rises from Rs. 40 to Rs. 50	removes shortage
(4)	falls from Rs. 50 to Rs. 40	removes shortage
(5)	rises from Rs. 50 to Rs. 60	removes surplus



13. In the diagram D_1 is the demand curve for sugar and S_1 is the initial supply curve. Suppose the government imposes a specific tax on sugar which causes the supply curve to shift to S_2 .

Which areas in the diagram measures the resulting tax revenue to the government, new producer surplus and the deadweight loss?



	Tax revenue	New producer surplus	Deadweight loss
(1)	B + C + G	H	A + H
(2)	E + F	F + G + H	E + F
(3)	B + C	C + G + H	E + F + M
(4)	B + C + G	H	E + F
(5)	B + C + G	F + G + H	E + F + M

14. Suppose a government intends to increase the income of paddy farmers without raising the price of rice to consumers. The most appropriate policy to achieve the government's objective would be

- (1) a release of government rice stocks onto the market.
- (2) setting a guaranteed price above the market price of rice with an agreement to purchase the unsold output by the government.
- (3) introducing a minimum price below the market price of rice with an agreement to purchase the unsold output by the government.
- (4) introducing a maximum price below the market price of rice.
- (5) a payment of a subsidy to paddy farmers.

15. Which of the following combinations of industry characteristics indicates the monopolistically competitive industry?

	Freedom of Entry	Nature of Product	Firm's Demand Curve
(1)	High barriers	Homogeneous	Downward sloping
(2)	High barriers	Differentiated	Downward sloping
(3)	Low barriers	Homogeneous	Horizontal line
(4)	Low barriers	Differentiated	Downward sloping
(5)	High barriers	Unique	Horizontal line

16. A perfectly competitive firm will earn zero economic profit in the short-run when

- (1) price equals marginal cost.
- (2) total revenue equals total variable cost.
- (3) marginal cost equals average variable cost.
- (4) marginal revenue equals average fixed cost.
- (5) price equals average total cost.

17. A firm facing diseconomies of scale will experience
- (1) a rising marginal cost in the short-run.
 - (2) a rising long-run average total cost as output increases.
 - (3) a decreasing average total cost in the long-run.
 - (4) a an increase in output greater than the increase in inputs.
 - (5) a constant long-run average total cost regardless of output level.
18. The table shows the firm's total cost and marginal cost at different levels of output.

Output Level	Total Cost (Rs.)	Marginal Cost (Rs.)
1	250	50
2	295	45
3	330	35
4	375	45
5	425	50

What is the average fixed cost for producing 5 units of output?

- (1) Rs. 300 (2) Rs. 200 (3) Rs. 150 (4) Rs. 60 (5) Rs. 40
19. According to the value added method, Gross Domestic Product is calculated by
- (1) subtracting the value of intermediate goods from the value of output.
 - (2) adding the value of all final goods and services produced.
 - (3) adding the total income generated in an economy.
 - (4) adding the value of all intermediate goods used in production.
 - (5) subtracting the value of imports from the total value of output.
20. The informal economy refers to
- (1) activities that are illegal and hidden from the government.
 - (2) economic activities that are not monitored or regulated by the government.
 - (3) all economic activities conducted by small businesses.
 - (4) economic transactions that occur among large corporations and non-profit making institutions.
 - (5) the subsistence agricultural sector of the economy.
21. An economy where Gross National Disposable Income is higher than Gross National Income, reflects that
- (1) the country is experiencing a trade deficit.
 - (2) the country is experiencing a trade surplus.
 - (3) the country's domestic production exceeds its consumption.
 - (4) the country is saving more than it is investing.
 - (5) the country's net foreign transfers are positive.
22. Selected national income accounting data for a hypothetical economy are given below. (Figures are in Rs. billion.)

Item	Value	Item	Value
Compensation of employees	600	Other taxes less subsidies on production	50
Gross operating surplus	800	Net primary income from rest of the world	-20
Gross mixed income	850	Taxes less subsidies on products and services	120
Consumption of fixed capital	150		

What are the values of Gross Domestic Product and Gross National Income?

	Gross Domestic Product	Gross National Income
(1)	2 420	2 400
(2)	2 270	2 250
(3)	2 420	2 440
(4)	2 570	2 550
(5)	2 250	2 230

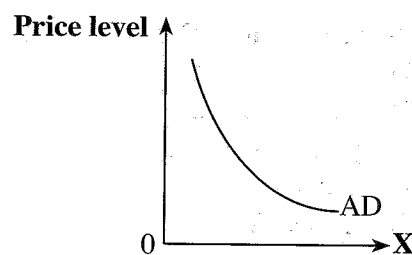
23. In a closed economy with no government, an increase in investment of Rs. 200 million results in an increase in consumption of Rs. 800 million. What is the marginal propensity to consumption in this economy?
- (1) 0.2 (2) 0.25 (3) 0.75 (4) 0.8 (5) 0.9

[see page five]

24. The diagram shows an aggregate demand curve (AD).

What is measured on the horizontal axis?

- (1) Nominal national income
- (2) Nominal national output
- (3) Nominal disposable income
- (4) Real gross domestic product
- (5) Potential level of output



25. Assume that the economy is in equilibrium at the intersection of the aggregate demand and aggregate supply curves. If there is an increase in government spending with no corresponding increase in taxes, what is the most likely short-run effect?

- (1) The aggregate demand curve will shift to the left, increasing unemployment.
- (2) The aggregate demand curve will shift to the right leading to higher output and higher employment.
- (3) The aggregate demand curve will not change but the aggregate supply curve will shift to the left.
- (4) The aggregate demand curve will shift to the right leading to lower output and lower employment.
- (5) The aggregate demand curve will shift to the left leading to a lower price level.

26. Suppose a businessman withdraws Rs. 50 000 from his safe and deposits the money in a commercial bank. If the bank holds no excess reserves and the statutory reserve requirement is 10%, how will this deposit increase bank's required reserves and the bank's lending ability?

	Required Reserves (Rs.)	Lending Ability (Rs.)
(1)	50 000	40 000
(2)	50 000	50 000
(3)	40 000	5 000
(4)	5 000	45 000
(5)	5 000	500 000

27. Which of the following statements best distinguishes between demand-pull and cost-push inflation?

- (1) Demand-pull inflation is caused by excessive supply, while cost-push inflation is caused by excessive demand.
- (2) Demand-pull inflation occurs when aggregate supply increases, while cost-push inflation occurs when aggregate demand decreases.
- (3) Demand-pull inflation is caused by increase in wage rates, while cost-push inflation is caused by excessive expansion in money supply.
- (4) Demand-pull inflation is driven by increases in aggregate demand, while cost-push inflation is driven by increases in the cost of production.
- (5) Demand-pull inflation results in higher employment, while cost-push inflation results in lower employment.

28. High powered money includes

- (1) time deposits held by the public at commercial banks.
- (2) savings deposits held by the public at licensed banks and finance companies.
- (3) currency held by public and reserves of commercial banks.
- (4) loans issued by commercial banks.
- (5) foreign assets held by the Central Bank.

29. Select the statement best explains the relationship between interest rates and the speculative demand for money.

- (1) The speculative demand for money is independent of interest rates.
- (2) The speculative demand for money is directly proportional to interest rates.
- (3) The speculative demand for money increases as interest rates rise.
- (4) The speculative demand for money decreases as interest rates rise.
- (5) The speculative demand for money is infinite at higher interest rates.

30. The new Central Bank Act of 2023 has debarred the Central Bank of Sri Lanka from
- (1) printing money.
 - (2) granting direct or indirect credit to the government.
 - (3) playing the role as the banker to the government.
 - (4) conducting its open market operations as a monetary policy instrument.
 - (5) intervening to the foreign exchange market.
31. In the context of public goods, 'non-rivalrous consumption' means
- (1) the good can be consumed by one individual without reducing the amount available for others.
 - (2) the good cannot be provided to individuals who do not pay for it.
 - (3) the people who do not pay cannot be excluded from the consumption.
 - (4) the consumption of a public good by one individual reduces the availability of that good for others.
 - (5) public goods can be consumed only by those who have paid for them.
32. A main feature of a regressive tax can be stated as
- (1) low income earners pay a higher proportion of their income in tax than high income earners.
 - (2) marginal tax rates exceed average tax rates.
 - (3) the cost of collecting the tax exceeds the revenue raised.
 - (4) the marginal rate of tax is higher for high income earners than for low income earners.
 - (5) the tax rate increases as income increases.
33. What is the most accurate statement about the impact of transfer payments on fiscal policy?
- (1) Transfer payments directly affect aggregate demand by increasing government expenditure.
 - (2) Transfer payments do not affect the budget deficit as they are not part of government expenditure.
 - (3) Transfer payments increase government spending without directly contributing to the production of goods or services.
 - (4) Transfer payments encourage economic growth by stimulating investment.
 - (5) Transfer payments can influence aggregate demand by reducing the disposable income of households.
34. The main contributors to significant rise in tax revenue in Sri Lanka after the year 2022 were
- (1) income taxes, import duties and economic service charge.
 - (2) special commodity levy, income taxes and value added tax.
 - (3) income taxes, value added tax and excise duties.
 - (4) taxes on foreign trade, value added tax and special commodity levy.
 - (5) ports and airports development levy, nation building tax and value added tax.
35. In the context of International Monetary Fund's debt restructuring process, what is meant by 'Debt Sustainability Analysis' (DSA)?
- (1) An analysis to determine the amount of debt a country can sustain without defaulting
 - (2) An assessment of a country's ability to meet its current foreign debt obligation
 - (3) A method to decrease the interest payments on existing debt
 - (4) An analysis of the long-term ability of a country to service its debt
 - (5) An analysis of full repayment of all outstanding debt within five years
36. A country has comparative advantage in producing a good if
- (1) it has the lowest opportunity cost for producing that good.
 - (2) it produces more of that good than any other country.
 - (3) it can be sold at a higher price.
 - (4) it produces the good with the highest profit margin.
 - (5) a country can produce a good using fewer resources than another country.
37. Consider a domestic industry where the value of imported inputs is Rs. 5 000, and the value of the final product is Rs. 10 000. If the tariff on the final product is 25% and the tariff on imported inputs is 20%, what is the rate of effective protection?
- (1) 5%
 - (2) 15%
 - (3) 25%
 - (4) 30%
 - (5) 32.5%

[see page seven]

38. What is the newest bilateral free trade agreement signed by Sri Lanka?

- (1) Singapore - Sri Lanka Free Trade Agreement
- (2) China - Sri Lanka Free Trade Agreement
- (3) India - Sri Lanka Comprehensive Economic Partnership Agreement
- (4) Bangladesh - Sri Lanka Free Trade Agreement
- (5) Thailand - Sri Lanka Free Trade Agreement

39. Table below shows some data pertaining to balance of payments of a hypothetical economy.

Item	Value (Rs. billion)
Trade balance	120.1
Services balance	29.3
Primary income balance	-25.8
Secondary income balance	11.5
Capital account balance	-35.1
Financial account balance	-112.6
Net errors and omissions	12.6

What is the balance of the current account of the balance of payments?

- (1) Rs. 149.4 billion
- (2) Rs. 135.1 billion
- (3) Rs. 100 billion
- (4) Rs. -12.6 billion
- (5) Rs. -135.1 billion

40. Which of the following scenarios will satisfy the Marshall-Lerner condition?

- (1) The price elasticity of demand for exports is 0.5 and the price elasticity of demand for imports is 0.3
- (2) The price elasticity of demand for exports is 0.8 and the price elasticity of demand for imports is 0.6
- (3) The price elasticity of demand for exports is 0.2 and the price elasticity of demand for imports is 0.4
- (4) The price elasticity of demand for exports is 0.7 and the price elasticity of demand for imports is 0.2
- (5) The price elasticity of demand for exports is 0.8 and the price elasticity of demand for imports is 0.2

41. If a country's effective real exchange rate depreciates, this suggests that

- (1) the country's exports have become cheaper relative to foreign goods.
- (2) the inflation rate in the country has significantly increased.
- (3) the country's nominal exchange rate has increased holding inflation constant.
- (4) the country's currency has appreciated against a basket of other currencies.
- (5) a rise in domestic prices while nominal exchange rates remain constant.

42. What is a central bank swap arrangement?

- (1) An arrangement between central banks to exchange goods and services
- (2) A bilateral agreement between central banks to exchange currencies to stabilize exchange rates or provide liquidity
- (3) A mechanism to regulate interest rates between countries
- (4) A tool to directly influence a country's stock market
- (5) An agreement between central banks to sell and purchase government bonds in foreign currencies

43. Which factor is most likely to cause an improvement in a country's Human Development Index despite a stagnation in economic growth?

- (1) Increased life expectancy
- (2) Decreased income inequality
- (3) Growth in the informal economy
- (4) Reduction in child mortality rate
- (5) Increased access to clean drinking water

44. The 'middle income trap' refers to a situation where

- (1) a country cannot escape poverty and unemployment.
- (2) a country faces inflationary pressure as it transitions to middle-income status.
- (3) a country struggles to grow after reaching middle-income levels, failing to transition to high-income status.
- (4) the lack of skilled labour hinders progress to a high-income status.
- (5) economic growth is limited due to low levels of foreign direct investment and high inflation.

45. Table below shows some selected socio-economic data for a country for two time periods.

Year	Nominal GDP (Rs. billion)	Literacy Level (%)	Mortality Rate per 1,000 Population	General Price Level
2010	75	82	78	125
2020	120	97	52	150

Which of the following statements on the socio-economic status of this economy for the period 2010-2020 is consistent with the data presented in the table?

- (1) An increase in real GDP and improved living standards
 - (2) An increase in real GDP and decline in living standards
 - (3) A decrease in real GDP and decline in living standards
 - (4) A decrease in real GDP and improved living standards
 - (5) A decrease in real GDP and improved human development
46. The old-age dependency ratio specifically refers to the ratio of
- (1) individuals aged 65 and above to the working-age population.
 - (2) individuals aged 60 and above to the total population.
 - (3) individuals aged 60 and above to the population aged 15 - 59.
 - (4) individuals aged 0 - 14 to the elderly population.
 - (5) individuals aged 15 - 64 to the total population.
47. Which of the following countries is most likely to have a high Gini Coefficient?
- (1) A country with universal free health care and education
 - (2) A country experiencing positive economic growth with low level of unemployment
 - (3) A country with a progressive tax system and extensive redistribution policies
 - (4) A country with bottom 10% of income earners hold 9% of the total income
 - (5) A country with a large informal sector and minimum social safety nets
48. What is the significance of the Colombo Port City Project for Sri Lanka's economy?
- (1) It is a major initiative to attract foreign investment and trade.
 - (2) It aims to develop a shipyard for container handling.
 - (3) It focuses on increasing domestic production.
 - (4) It focuses exclusively on creating jobs in Colombo city.
 - (5) It prioritizes development in Sri Lanka's tourism sector over other industries.
49. A major trigger for Sri Lanka's economic crisis in the year 2022 was
- (1) a significant decline in remittances from migrant workers.
 - (2) excessive appreciation of the Sri Lankan rupee.
 - (3) a sharp increase in global oil prices.
 - (4) a decrease in the production of chemical fertilizer.
 - (5) an unsustainable accumulation of foreign debt.
50. The IMF's Extended Fund Facility (EFF) to Sri Lanka in the year 2023 is primarily aimed at
- (1) reducing the country's inflation rate to below 5%.
 - (2) restoring macroeconomic stability and debt sustainability.
 - (3) transforming Sri Lanka towards high income country status in 2048.
 - (4) supporting a fixed exchange rate regime.
 - (5) privatization of State Owned Enterprises (SOEs).

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இலங்கைப் பரீட்சைத் திணைக்களம் இலங்கைப் பரீட்சைத் திணைக்களம் இலங்கைப் பரீட்சைத் திணைக்களம் இலங்கைப் பரீட்சைத் திணைக்களம் இலங்கைப் பரீட்சைத் திணைக்களம்
 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

අධ්‍යයන පොදු සහතික පත්‍ර (උසස් පෙළ) විභාගය, 2024
கல்விப் பொதுத் தராதரப் பத்திர (உயர் தர)ப் பரீட்சை, 2024
General Certificate of Education (Adv. Level) Examination, 2024

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) Define economic resources and free resources providing **two** examples of each category. (04 marks)
- (ii) Explain the main differences between 'labour' and 'entrepreneurship'. (03 marks)
- (iii) Under what conditions would the production possibilities curve be a straight line? (03 marks)
- (iv) Compare the role of government in a command economic system and a market economic system. (04 marks)
- (v) Explain how market, command and mixed economic systems solve the problem of scarcity and evaluate the effectiveness of those approaches. (06 marks)
2. (i) Using diagrams, explain how market demand curve is derived from individual demand curves. (04 marks)
- (ii) What is meant by price elasticity of demand? How does it affect total revenue? (03 marks)
- (iii) State **three** government policy tools which can influence the market supply curve of a commodity. (03 marks)
- (iv) Define the concept of market equilibrium and explain the forces that drive a market disequilibrium towards an equilibrium. (04 marks)
- (v) (a) Define consumer surplus and producer surplus. (02 marks)
- (b) Using diagrams, explain how the price elasticity of demand affects consumer surplus. (04 marks)

3. (i) Distinguish between a specific tax and an ad-valorem tax. (02 marks)
- (ii) Using diagrams, show the deadweight loss created by a subsidy and a tax in a free market. (04 marks)
- (iii) Analyse the impact of maximum price ceilings on consumer surplus, producer surplus, and overall economic welfare. (06 marks)
- (iv) Suppose the market demand function for fresh milk is $Q_D = 280 - 2P$ and the market supply function is $Q_S = -220 + 3P$. (Quantities are in million litres and prices are in rupees.)
- (a) What are the equilibrium price and the quantity? (02 marks)
- (b) Now suppose a subsidy of Rs. 10 is given to the dairy farmers for each litre of fresh milk they produce. What are the new equilibrium price and the quantity? (04 marks)
- (c) Do dairy farmers receive total subsidy under this situation? If not, what percentage of the subsidy do dairy farmers actually receive? (02 marks)
4. (i) Define the Law of Diminishing Marginal Returns in the context of a short-run production function. (02 marks)
- (ii) How does a firm determine its profit-maximizing level of output in the short-run production process? (03 marks)
- (iii) During a production period, a firm earns Rs. 200,000 in total revenue and incurs Rs. 150,000 in explicit costs. The firm's implicit costs including the opportunity cost of the owner's capital and labour amount to Rs. 70,000. Calculate the firm's accounting profit and economic profit. (04 marks)
- (iv) Explain how a shift in the firm's cost structure such as an increase in the cost of raw materials would affect the firm's short-run supply curve and the overall industry supply curve. Use appropriate diagrams to support your explanation. (05 marks)
- (v) A perfectly competitive firm sells its output at a market price of Rs. 120 per unit. The firm's average fixed cost is Rs. 20 and the average variable cost is Rs. 80, when 60 units are produced.
- (a) Calculate the firm's total revenue, total cost and economic profit or loss at this level of output. (04 marks)
- (b) Calculate the producer surplus at that level of output. (02 marks)
5. (i) Name the leakages in the circular flow of income model for an open economy. (03 marks)
- (ii) What activities are excluded within the production boundary in the System of National Accounts? (03 marks)
- (iii) State whether the following statements are true or false and explain the reasons for your answer.
- (a) The production of goods for own consumption such as subsistence farming is included within the production boundary.
- (b) The 'rest of the world' is considered as an institutional unit in the System of National Accounts.
- (c) Vehicle registration fees paid by business firms are part of 'other taxes on production'.
- (d) Barter transactions are not included in the production boundary because no money is exchanged.
- (e) 'Taxes on product' only apply to taxes directly imposed on the quantity of goods produced. (01 × 5 = 05 marks)

- (iv) Consider a closed economy where the autonomous consumption is Rs. 200 billion, the marginal propensity to consume is 80% of disposable income and investment is Rs. 500 billion. Further the Government spending is Rs. 300 billion and autonomous taxes are Rs. 200 billion.

Calculate the equilibrium level of national income of this economy. (04 marks)

- (v) (a) Define 'recessionary gap' and illustrate it in an aggregate demand-supply model. (03 marks)
- (b) What policy recommendations would you suggest to bring an economy towards full employment level by eliminating a recessionary gap? (02 marks)

Sub section 'B'

(Select minimum of two questions from this section.)

6. (i) Name **three** money aggregates widely used in the context of Sri Lanka's monetary policy. (03 marks)
- (ii) What factors have contributed Sri Lanka's inflation to be contained at single-digit level since the end of 2023 from its peak levels of around 70% recorded in September 2022? (04 marks)
- (iii) Explain why policymakers focus on core inflation rather than headline inflation in setting monetary policy. (04 marks)
- (iv) What would be the impact of an increase in the statutory reserve ratio on the money supply and the banking system's ability to create money? (04 marks)
- (v) Explain the concept of interest rate corridor and analyse its role in monetary policy in Sri Lanka. (05 marks)
7. (i) Define 'common property resources' and distinguish them from public goods. (04 marks)
- (ii) Name **three** sources of multilateral lending to Sri Lanka. (03 marks)
- (iii) Explain how market failure and government failure can lead to inefficiency in the allocation of resources of a country. (05 marks)
- (iv) The table below shows some selected public finance data for a hypothetical economy in year 2022.

Item	Value (Rs. billion)	Item	Value (Rs. billion)
Tax Revenue	1 800	Current Transfers and Subsidies	800
Non Tax Revenue	250	Capital Expenditure	1 000
Grants	50	Net Lending	200
Expenditure on Goods and Services	1 200	Amortization Payments	1 400
Interest Payments	1 500		

Calculate the following pertaining to the government budget using the above information.

- (a) Current account balance
- (b) Primary account balance
- (c) Overall balance
- (d) Gross financing needs

(02 × 4 = 08 marks)

8. (i) Suppose country A can produce 10 units of textiles or 5 pairs of shoes with one unit of labour, while country B can produce 15 units of textiles or 10 pairs of shoes with one unit of labour.
- (a) Explain which country has a comparative advantage in the production of each good. (04 marks)
- (b) Determine the range of possible terms of trade between textiles and shoes for a mutually beneficial trade to occur. (02 marks)
- (ii) What are the main causes of persistent trade deficit Sri Lanka has faced after 1977? (04 marks)
- (iii) What measures can be taken to enhance Sri Lanka's export competitiveness in the global market? (04 marks)
- (iv) What are the main macroeconomic effects associated with a depreciation of the external value of the currency? (06 marks)
9. (i) (a) Explain briefly how Gross National Income per capita is used as a measure of development. (02 marks)
- (b) What are its limitations as a measure of development? (03 marks)
- (ii) Outline the main causes of rapid increase in poverty level of Sri Lanka in the recent years. (04 marks)
- (iii) How do poor governance and corruption influence economic development process? (05 marks)
- (iv) What challenges does the demographic transition has posed for the labour market and public finances in Sri Lanka? (06 marks)
10. (i) State briefly the key factors that have contributed to the economic crisis Sri Lanka is experiencing at present. (04 marks)
- (ii) What role are the international financial institutions playing in supporting Sri Lanka during the current economic crisis? (04 marks)
- (iii) What key challenges must be addressed to achieve economic recovery and sustainable growth in Sri Lanka over the next five-year period? (06 marks)
- (iv) How can the improvement of digital infrastructure promote economic growth, economic efficiency and global competitiveness of Sri Lanka? (06 marks)

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