

AL/2017/21/E-I

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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, 2017 අගෝස්තු
 கல்விப் பொதுத் தராதரப் பத்திர (உயர் தர)ப் பரீட்சை, 2017 ஆகஸ்ட்
 General Certificate of Education (Adv. Level) Examination, August 2017

ආර්ථික විද්‍යාව I
 பொருளியல் I
 Economics I

21 E I

පැය දෙකයි
 இரண்டு மணித்தியாலம்
 Two hours

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Total		

Index No. :

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	Signature	Code No.
1st Examiner		
2nd Examiner		
Addl. Chief		
E.M.F.		
Chief		

Instructions:

- * Answer **all** the questions on this question paper itself.
- * Write your **Index Number** in the space provided in the answer sheet.
- * Select the correct answers for questions No. 1-50 and write its number on the dotted line given.

1. Which one of the following is **not** a factor of production?

(1) Natural resources	(2) Human resources	
(3) Capital	(4) Money	(.....)
(5) Entrepreneurship		

2. The problem of scarcity

(1) exists only in developing economies.	
(2) exists only in market economies.	
(3) exists because prices of goods and services are too high.	
(4) exists now but will be eliminated with economic growth.	
(5) exists because of limited resources.	(.....)

3. Which of the following is assumed in constructing a production possibilities curve?

(1) The economy is using its resources inefficiently.	
(2) Resources are utilized to produce only private goods.	
(3) Full employment, but not full production, is being realized.	
(4) Production technology is fixed.	
(5) There is no inflation in the economy.	(.....)

4. An economy has achieved productive efficiency when

(1) it is unable to produce more of one good without producing less of another.	
(2) the marginal cost of producing each good is equal to its price.	
(3) it has eliminated all negative externalities.	
(4) the resources are allocated to produce goods and services most wanted by society.	
(5) it is self-sufficient in all products.	(.....)

{See page two

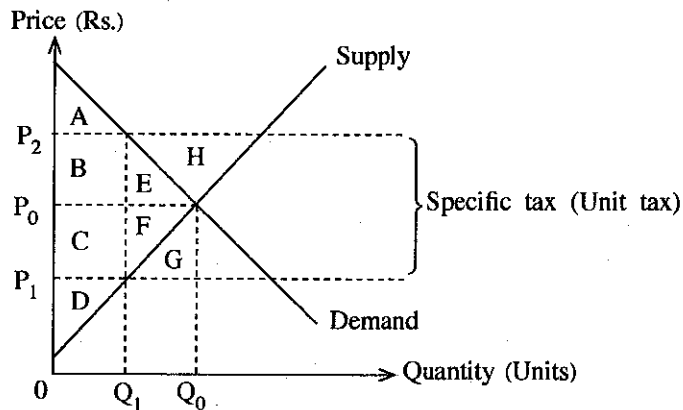
5. The fundamental economic questions of 'what to produce' and 'for whom to produce' are essentially interdependent because:
- (1) different patterns of income distribution generate different patterns of demand and therefore different patterns of resource allocation.
 - (2) different patterns of production methods generate different patterns of income distribution.
 - (3) income and wealth are concentrated in the hands of the economically powerful segments of society.
 - (4) markets cannot be relied upon to allocate resources efficiently.
 - (5) a particular level of output may be produced by many different combinations of inputs. (.....)
6. The main function of prices in a market economy is to
- (1) generate more profits to the entrepreneurs.
 - (2) guide households to choose investment opportunities.
 - (3) determine the elasticity of demand curves.
 - (4) improve the distribution of income.
 - (5) allocate scarce resources among alternative uses. (.....)
7. Which one of the change in the following factors causes the market demand curve for a good to remain unchanged?
- (1) Population
 - (2) Price of that good
 - (3) Price of a substitute good
 - (4) Price of a complementary good
 - (5) Average income of households (.....)
8. Which one of the following combinations of income and price elasticities of demand is consistent with a normal good which has a downward sloping demand curve?

	Income Elasticity of Demand	Price Elasticity of Demand
(1)	Negative	Positive
(2)	Positive	Negative
(3)	Negative	Negative
(4)	Positive	Positive
(5)	Negative	Zero

- (.....)
9. Suppose there are only two goods A and B, and other things including consumer's money income remain unchanged. If the price of good A falls and the demand for good B increases, we can conclude that
- (1) A is a normal good.
 - (2) both A and B are normal goods.
 - (3) A is an inferior good.
 - (4) B is an inferior good.
 - (5) B is a normal good. (.....)
10. An increase in the price of rice has caused the demand for bread to rise by 30%. The cross elasticity of demand between rice and bread is 3.0. Which change in the price of rice has brought this about?
- (1) From Rs. 80 to Rs. 90 per kilogram
 - (2) From Rs. 60 to Rs. 72 per kilogram
 - (3) From Rs. 80 to Rs. 85 per kilogram
 - (4) From Rs. 70 to Rs. 80 per kilogram
 - (5) From Rs. 80 to Rs. 88 per kilogram (.....)
11. Which of the following is true in the market for a certain product, if producers consistently are willing to sell more at the going price than consumers are willing to buy?
- (1) Demand is highly inelastic
 - (2) Supply is highly elastic
 - (3) The product is inferior
 - (4) There is a price ceiling on the product
 - (5) There is a price floor on the product (.....)
12. Market demand and supply curves for a certain consumer good is represented by the following equations:
- $$\text{Demand } (Q_D) = 80 - 2P \qquad \text{Supply } (Q_S) = -20 + 3P$$
- Then the equilibrium quantity and price would be:
- (1) 40 units and Rs. 20.
 - (2) 56 units and Rs. 12.
 - (3) 50 units and Rs. 15.
 - (4) 60 units and Rs. 10.
 - (5) 40 units and Rs. 120. (.....)

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13. The diagram below represents a competitive market for a certain consumer good.



If a specific tax (unit tax) is levied on the product in this market by the government, the producer surplus after the tax is the area

- (1) A+B+F. (2) B+E+C+F+D. (3) C+F+D.
 (4) D. (5) E+F+H. (.....)

14. If the price elasticity of supply is less than one, this means the

- (1) change in quantity supplied is greater than the change in price.
 (2) percentage change in quantity supplied is greater than the percentage change in price.
 (3) change in quantity supplied is less than the change in price.
 (4) percentage change in quantity supplied is less than the percentage change in price.
 (5) percentage change in quantity supplied is less than the change in price. (.....)

15. Suppose the demand and supply curves for a competitive market are represented by the following equations:

$$\text{Demand } (Q_D) = 60 - 2P$$

$$\text{Supply } (Q_S) = -20 + 3P$$

In the equations above, Q_D and Q_S are the quantity demanded and quantity supplied and P is the price. Suppose the government imposes a minimum price equal to Rs. 20 per unit. Then, this will

- (1) lead to an excess supply in the market equal to 20 units.
 (2) lead to an excess supply in the market equal to 28 units.
 (3) lead to an excess demand in the market equal to 28 units.
 (4) lead to an excess demand in the market equal to 20 units.
 (5) have no effect on the market. (.....)

16. The 'Law of Diminishing Returns' states,

- (1) as the size of a plant increases, its marginal product eventually decreases.
 (2) as the size of a plant increases, its average cost eventually decreases.
 (3) as a firm uses more of a variable input, given the quantity of fixed inputs, its marginal product eventually decreases.
 (4) as a firm uses more of a variable input, given the quantity of fixed inputs, its average cost eventually decreases.
 (5) as a firm uses more of a fixed input, given the quantity of variable inputs, its marginal product eventually decreases. (.....)

17. If there are implicit costs of production

- (1) accounting profit will exceed economic profit.
 (2) economic profit will always be zero.
 (3) economic profit will exceed accounting profit.
 (4) accounting profit will always be zero.
 (5) economic profit and accounting profit will be equal. (.....)

18. Which of the following is **not** usually a characteristic of a perfectly competitive market?

- (1) No individual firm has any significant amount of market power.
 (2) The market demand curve is perfectly elastic.
 (3) Any individual firm can increase its production and sales without affecting the price of the good.
 (4) The existing firms cannot bar the entry of new firms.
 (5) There are large number of buyers and sellers in the market. (.....)

[See page four

19. The table below displays some of the assumptions of perfect competition and monopolistic competition. Which combination of assumptions is consistent with these markets?

	Perfect Competition	Monopolistic Competition
(1)	Homogeneous product	Barriers to entry and exit
(2)	Differentiated products	Homogeneous product
(3)	Large number of sellers	Small number of sellers
(4)	Barriers to entry and exit	Perfect information
(5)	Large number of sellers	Differentiated products

(.....)

20. A firm in a perfectly competitive industry is facing the following situation in the short run.

The current level of output	= 500 units
Market price	= Rs. 6 per unit
Total cost	= Rs. 5 000
Total fixed cost	= Rs. 1 000
Marginal cost	= Rs. 6

The firm whose goal is profit maximization should

- (1) reduce output but keep producing. (2) increase its selling price.
 (3) leave output unchanged. (4) reduce output to zero.
 (5) increase output but keep its price constant.

(.....)

21. The sequence of phases of the business cycle are

- (1) contraction, expansion, trough and peak. (2) contraction, peak, expansion and trough.
 (3) contraction, trough, peak and expansion. (4) contraction, trough, expansion and peak.
 (5) contraction, peak, trough and expansion.

(.....)

22. Which of the following expenditures would be included in the calculation of gross fixed capital formation?

- (1) Buying a newly constructed house
 (2) Buying a new luxury car
 (3) Buying 1 000 shares of stock of a manufacturing company
 (4) Commission paid to a stock broker for selling stocks
 (5) Money spent on corn cultivation in a five hectare plot of land

(.....)

23. Suppose GDP of a country in current prices increased by approximately 8% between one period and the next, but real GDP fell by 2% in the same period. Which one of the following explanations is most likely?

- (1) General price level fell by 4%. (2) General price level fell by 8%.
 (3) General price level increased by 4%. (4) General price level increased by 8%.
 (5) General price level increased by 10%.

(.....)

24. An increase in which of the following may result in a decrease in aggregate expenditure in an economy?

- (1) Consumption expenditure (2) Government purchases
 (3) Import expenditure (4) Investment expenditure
 (5) Inflow of foreign remittances

(.....)

25. Assume that in a closed economy, the aggregate consumption function is $C = 200 + 0.8Y$, and the equilibrium level of national income is Rs. 4 000 billion. What is the level of investment for this economy?

- (1) Rs. 1 600 billion (2) Rs. 600 billion (3) Rs. 400 billion
 (4) Rs. 380 billion (5) Rs. 300 billion

(.....)

26. Suppose an economy is currently operating at an equilibrium level of output at Rs. 3 000 billion and to achieve full employment equilibrium, it requires to produce an output level of Rs. 4 000 billion. This economy's marginal propensity to save is 0.2. What would be the most appropriate policy recommendation for this economy to achieve full employment equilibrium?

- (1) Increase government spending by Rs. 1 000 billion
 (2) Increase government spending by Rs. 500 billion
 (3) Increase government spending by Rs. 250 billion
 (4) Decrease direct taxes by Rs. 1 000 billion
 (5) Decrease direct taxes by Rs. 250 billion

(.....)

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27. The table below presents data on the components of aggregate expenditure and national income for an open economy with a government sector where, C=Consumption expenditure, I=Investment, G=Government purchases, X= Exports, M=Imports and Y=National income. Under which situation is this economy in disequilibrium?

(All figures are in Rs. billion)

	C	I	G	X	M	Y
(1)	250	50	100	75	25	400
(2)	300	50	100	75	25	500
(3)	450	50	100	75	25	650
(4)	600	50	100	75	25	800
(5)	750	50	100	75	25	950

(.....)

28. What is meant by 'the value of money'?

- (1) The amount of goods and services that can be purchased with a given amount of money
- (2) The amount of wealth stored in the form of money
- (3) The amount of gold reserves kept at the Central Bank
- (4) The cost of production of coins and notes
- (5) The opportunity cost of holding wealth in the form of money

(.....)

29. An inflationary gap could be reduced by

- (1) an increase in government spending.
- (2) an increase in the supply of money.
- (3) an increase in the income tax rate.
- (4) a decrease in the Central Bank discount rate.
- (5) a decrease in the statutory reserve ratio.

(.....)

30. What will be the probable effects of an increase in the Value Added Tax (VAT) on demand-pull inflation and cost-push inflation?

	Demand-pull inflation	Cost-push inflation
(1)	Decrease	Increase
(2)	Increase	Decrease
(3)	Increase	Increase
(4)	Decrease	Decrease
(5)	Increase	Unaffected

(.....)

31. Which one of the following assets is most liquid?

- (1) Saving deposits
- (2) Treasury bills
- (3) Demand deposits
- (4) Treasury bonds
- (5) Real estate

(.....)

32. Suppose you deposit Rs. 10 000 in your deposit account in a commercial bank. If the bank wishes to hold 20% of all deposits on reserve, how much new deposits can it create as a direct result of your deposit?

- (1) Rs. 8 000
- (2) Rs. 10 000
- (3) Rs. 40 000
- (4) Rs. 50 000
- (5) Rs. 52 000

(.....)

33. Which of the following happens when the Central Bank reduces its policy interest rate?

- (1) The demand for money decreases and market interest rates decrease
- (2) The demand for money increases and market interest rates increase
- (3) The supply of money decreases and market interest rates decrease
- (4) The supply of money increases and market interest rates decrease
- (5) The demand for money, the supply of money and market interest rates increase

(.....)

34. The primary goal of the Central Bank of Sri Lanka in the conduct of its monetary policy at present is

- (1) to stabilize inflation at mid single digit over the medium term.
- (2) to maintain the external value of the rupee at a stable level.
- (3) to facilitate the government in budget deficit financing.
- (4) to achieve a sustainable economic growth.
- (5) to reduce the burden of public debt.

(.....)

[See page six

35. What will happen to the money supply and the equilibrium interest rate if the Central Bank sells securities in the open market?

	Money Supply	Equilibrium Interest Rate
(1)	Increase	Increase
(2)	Decrease	Increase
(3)	Increase	Decrease
(4)	Decrease	Decrease
(5)	Decrease	No change

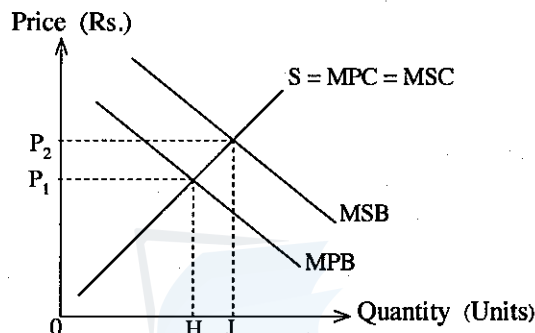
(.....)

36. An example of a pure public good is

- (1) health service. (2) national museum. (3) national defence.
(4) rail transport service. (5) education.

(.....)

37. Given in this diagram are the marginal private benefit (MPB) and marginal social benefit (MSB) curves and the market supply curve (S) for a particular good.



In the absence of government intervention in this market, misallocation of resources is likely to occur because of

- (1) the free market price is too high.
(2) there is over-production of the good of H-J.
(3) free market output is too high.
(4) there is under-consumption of the good of H-J.
(5) negative externality in consumption.

(.....)

38. The government revenue to GDP ratio and the government expenditure to GDP ratio in Sri Lanka in recent years were approximately:

	Revenue/GDP Ratio (%)	Expenditure/GDP Ratio (%)
(1)	15 - 16	25 - 26
(2)	12 - 13	24 - 25
(3)	13 - 14	20 - 21
(4)	10 - 11	15 - 16
(5)	15 - 16	18 - 19

(.....)

39. According to their relative importance in total expenditure, the main components of recurrent expenditure of Sri Lankan government can be ranked as

- (1) transfers to households, interest payments, salaries and wages.
(2) salaries and wages, interest payments, transfers to households.
(3) transfers to public institutions, interest payments, salaries and wages.
(4) transfers to households, salaries and wages, interest payments.
(5) interest payments, transfers to public institutions, transfers to households.

(.....)

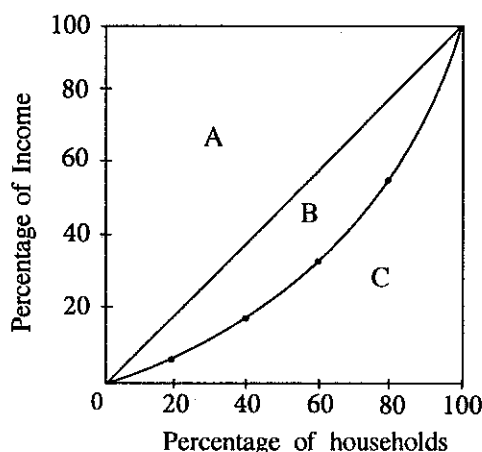
40. The widely used credit instrument in domestic financing budget deficit of Sri Lanka in recent years has been

- (1) Treasury Bills. (2) Treasury Bonds.
(3) Rupee Securities. (4) Sri Lanka Development Bonds.
(5) Central Bank Advances.

(.....)

[See page seven]

41. In Japan, it takes 50 labour hours to produce one unit of cloth and 100 labour hours to produce one unit of rice. In Thailand, it takes 200 labour hours to produce one unit of cloth and 200 labour hours to produce one unit of rice. Which of the following statements is true for this situation?
- (1) Japan has a comparative advantage in the production of rice.
 - (2) Thailand has an absolute advantage in the production of rice.
 - (3) Japan has a comparative advantage in the production of cloth.
 - (4) Thailand has a comparative advantage in the production of cloth.
 - (5) Both countries should produce cloth. (.....)
42. International trade permits a country to
- (1) produce and consume beyond its production possibilities boundary.
 - (2) shift its production possibilities boundary outward.
 - (3) lower the per-unit production costs of all goods which is producing.
 - (4) expand its production possibilities while holding constant its consumption possibilities.
 - (5) consume beyond its production possibilities boundary. (.....)
43. The current account plus the financial account of the balance of payments is equal to
- (1) zero. (2) one.
 - (3) the trade balance. (4) net capital account balance.
 - (5) net international reserves. (.....)
44. If the price of the Japanese Yen declines considerably against the Sri Lankan rupee,
- (1) Sri Lankan goods are relatively cheaper for Japanese consumers.
 - (2) Japanese goods are relatively cheaper for Sri Lankan consumers.
 - (3) demand for Sri Lankan rupees would increase in Japan.
 - (4) it would encourage more Japanese tourists visiting Sri Lanka.
 - (5) it would discourage more Sri Lankan tourists visiting Japan. (.....)
45. An economy's Gross National Income (GNI) per capita based on purchasing power parity has increased over a certain period of time, but its development measured by the Human Development Index has remained unchanged. What could explain the difference?
- (1) Increase in the number of expected years of schooling for children
 - (2) A decline in the life expectancy at birth
 - (3) A decrease in the adult literacy rate
 - (4) An increase in the rate of inflation
 - (5) An increase in the rate of population growth (.....)
46. The Lorenz Curve in the diagram below depicts the distribution of household income in an economy.



How is the Gini coefficient of the inequality of income distribution in this economy measured?

- (1) $(\text{Area A} + \text{Area B}) \div \text{Area C}$
- (2) $\text{Area B} \div \text{Area C}$
- (3) $\text{Area A} \div (\text{Area B} + \text{Area C})$
- (4) $\text{Area B} \div (\text{Area B} + \text{Area C})$
- (5) $\text{Area C} \div (\text{Area A} + \text{Area B})$ (.....)

[See page eight

47. The table below presents some data pertaining to the labour market in a hypothetical economy at a given year.

Working age population (million)	Unemployed population (million)	Rate of Employment (%)
25	3	80

The labour force participation rate in this economy is

- (1) 20%. (2) 30%. (3) 40%. (4) 50%. (5) 60%. (.....)

48. According to the 2012/13 Household Income and Expenditure Survey, the three districts with the highest Poverty Head Count Ratio in Sri Lanka are

- (1) Mullativu, Moneragala and Mannar. (2) Batticaloa, Mannar and Kilinochchi.
 (3) Mannar, Mullativu and Badulla. (4) Mannar, Mullativu and Kilinochchi.
 (5) Mullativu, Batticaloa and Moneragala. (.....)

49. Despite the reduction in absolute poverty level of Sri Lanka, significant income inequalities continue to persist. This is confirmed by the percentage of total household income held by the richest 10% of household which is

- (1) 10.9%. (2) 14.9%. (3) 28.6%. (4) 38.0%. (5) 57.5%. (.....)

50. Which one of the following is **not** a major obstacle to attracting foreign direct investment in Sri Lanka?

- (1) Unstable macroeconomic conditions (2) Labour market rigidities
 (3) Uncertainty of policies (4) Corruption and weak regulations
 (5) Lack of diversification in export sector (.....)



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ශ්‍රී ලංකා විභාග දෙපාර්තමේන්තුව ශ්‍රී ලංකා විභාග දෙපාර්තමේන්තුව ශ්‍රී ලංකා විභාග දෙපාර්තමේන්තුව ශ්‍රී ලංකා විභාග දෙපාර්තමේන්තුව ශ්‍රී ලංකා විභාග දෙපාර්තමේන්තුව
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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 (සවිස්තර) විභාග, 2017 අගෝස්තු
 கல்விப் பொதுத் தராதரப் பத்திர (உயர் தர) பரீட்சை, 2017 ஆகஸ்ட்
 General Certificate of Education (Adv. Level) Examination, August 2017

ආර්ථික විද්‍යාව II
 பொருளியல் II
 Economics II

21 E II

පැය තුනයි
 மூன்று மணித்தியாலம்
 Three hours

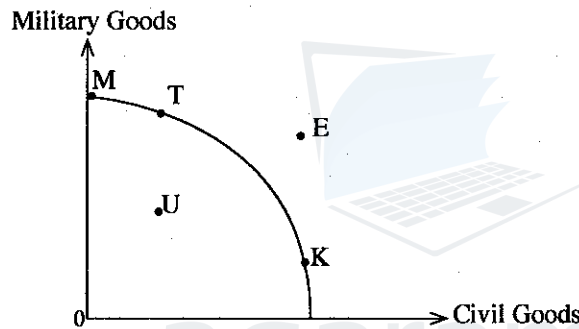
Instructions:

- * 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) The following diagram shows a production possibilities curve for an economy which produces only civilian goods and military goods. Assume that the economy is producing at point K.



- (a) Does this economy's production possibilities curve exhibit increasing opportunity costs? Explain. (02 marks)
- (b) If this economy were to go for a war, the most likely move would be from point K to which point? Explain. (02 marks)
- (c) If the economy entered into a recession, the economy would move from point K to which point? Explain. (02 marks)
- (ii) State **three** reasons that explain why the division of labour increases an economy's level of production. (03 marks)
- (iii) With the help of a production possibilities curve, explain the concept of scarcity. (04 marks)
- (iv) What functions do prices serve in a market economy? (03 marks)
- (v) State the disadvantages of a command economy. (04 marks)
2. (i) State factors other than its own price which may influence demand for a commodity. (03 marks)
- (ii) Distinguish between change in demand and change in quantity demanded. (04 marks)
- (iii) Define the 'Law of Supply' and explain the reasons for this. (04 marks)
- (iv) Using a demand and supply diagram, explain how the granting of a production subsidy on a good would affect the surplus enjoyed by the producers. (04 marks)
- (v) What are the economic consequences of a maximum price for an essential consumer good imposed by the government? (05 marks)

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3. (i) How does the Law of Diminishing Returns relate to the shape of the firm's short run cost curves? (04 marks)
- (ii) What happens to the difference between average total cost and average variable cost as a firm's output expands in the short run? Explain. (04 marks)
- (iii) How would each of the following affect average total cost and average variable cost?
- A reduction in the price of electricity
 - A reduction in the wage rate
 - An increase in the salary of the Chief Executive Officer (CEO)
 - An increase in the cost of the rent of the firm's buildings
- (iv) State **two** differences between a perfectly competitive market structure and an oligopolistic market structure. (04 marks)
- (v) Distinguish between normal profit and abnormal profit. (04 marks)
4. (i) Explain what is meant by 'injections' and 'leakages' from the circular flow of income and identify the leakages in the aggregate expenditure in an open economy with government activities. (04 marks)
- (ii) What are the major components of Gross Fixed Capital Formation? (04 marks)
- (iii) Explain how Gross Domestic Product (GDP) is calculated and show how GDP at market prices is different from Net National Income. (04 marks)
- (iv) Why do we consider a business cycle expansion to be different from economic growth? (04 marks)
- (v) The following macroeconomic data of year 2016 are given for an economy.

(All figures are in Rs. billion)

Item	Value
Gross investment (I)	200
Taxes (T)	550
Exports (X)	375
Consumption expenditure (C)	700
Transfer payments (T_R)	300
Imports (M)	325
Government purchases (G)	300

- Calculate the Gross Domestic Product of this economy. (02 marks)
 - What is the personal disposable income of this economy? (02 marks)
5. (i) Suppose an aggregate consumption function for a simple economy is given by $C=100 + 0.8Y$, while investment is given by $I=200$.
- What is the equilibrium level of income in this economy? (02 marks)
 - What is the level of saving at the equilibrium? (02 marks)
 - If, for some reason, aggregate output were at the level of 1700, what would the level of involuntary inventory accumulation be? (02 marks)
- (ii) Explain why a Rs. 500 million reduction in government purchases (G) will generate a larger fall in real GDP than a Rs. 500 million tax (T) increase. (04 marks)
- (iii) Assume that GDP (Y) is Rs. 6000 million, personal disposable income is Rs. 5100 million, government budget deficit is Rs. 200 million, consumption expenditure is Rs. 3800 million and trade deficit is Rs. 100 million.
- What is the amount of savings (S)? (02 marks)
 - What is the size of investment (I)? (02 marks)
 - How much is government spending (G)? (02 marks)
- (iv) "The equilibrium level of national income, is **not** necessarily equal to the full employment level of national income". Explain this statement. (04 marks)

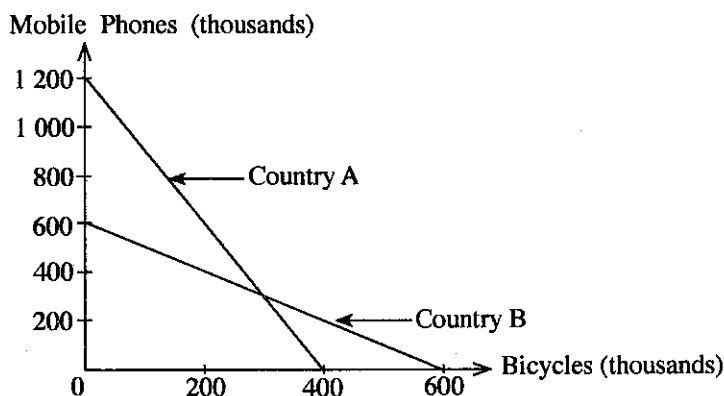
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Sub section 'B'*(Select minimum of two questions from this section.)*

6. (i) Distinguish between headline inflation and core inflation. (04 marks)
- (ii) Identify the components of aggregate expenditure and with the help of a diagram, explain how increase in aggregate spending in an economy might result in inflation. (04 marks)
- (iii) The balance sheet for a commercial bank is given below:

Liabilities	Value (Rs. Million)	Assets	Value (Rs. Million)
Deposits	180 000	Reserves	100 000
		Treasury Bonds	40 000
		Loans	40 000
Total liabilities	180 000	Total assets	180 000

- (a) If the statutory reserve ratio is 10%, what is the maximum amount of new loans that this bank could make in the future? (02 marks)
- (b) If Rs. 10 000 million of deposits are withdrawn from this bank, what is the maximum amount of new loans that this bank could make in the future? (02 marks)
- (iv) What do you mean by high powered money? Does a Central Bank have a perfect control over the stock of high powered money in the economy? Give reasons. (04 marks)
- (v) Briefly explain the main focus of the current monetary policy framework of the Central Bank of Sri Lanka. (04 marks)
7. (i) What is a pure public good? How does it differ from a quasi-public good? (04 marks)
- (ii) Why does a free market overproduce goods with negative externalities? Explain your answer with an appropriate diagram. (04 marks)
- (iii) What are the major sources of excise tax revenue in Sri Lanka? (04 marks)
- (iv) "Sri Lanka's public finances are at a perilous state" (Institute of Policy Studies). Identify the major weaknesses in public finances in Sri Lanka at present. (04 marks)
- (v) State briefly the important measures taken by the government of Sri Lanka in recent years to address the critical issues in public finances. (04 marks)
8. (i) The following diagram shows production possibilities curves for country A and country B producing mobile phones and bicycles.



- (a) What is the opportunity cost of producing a bicycle in each country? (02 marks)
- (b) Which country has a comparative advantage in the production of mobile phones? (02 marks)
- (c) For mutually beneficial trade to occur, what should be the rate of exchange between mobile phones and bicycles? (02 marks)

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- (ii) "The performance of Sri Lankan export sector has been lagging in comparison to its regional counterparts over the last two decades". Give reasons for the poor performance of the export sector in Sri Lanka. (04 marks)
- (iii) Explain how a significant rise in the general price level will affect the current account of the balance of payments of an economy. (04 marks)
- (iv) Explain the meaning of 'external stability'. (02 marks)
- (v) State briefly the potential benefits of regaining GSP Plus duty concession for Sri Lankan exports to European Union. (04 marks)
9. (i) Outline the limitations of using Gross Domestic Product (GDP) as a measure of a country's living standards. (04 marks)
- (ii) Explain the meaning of the term 'productive capacity'. (02 marks)
- (iii) What are the key factors determining a country's productive capacity? (04 marks)
- (iv) How is poverty measured in Sri Lanka? (05 marks)
- (v) What are the major economic challenges Sri Lanka is facing due to population aging? (05 marks)
10. (i) What are the advantages of Public-Private Partnerships (PPP) as a strategy for infrastructure development in Sri Lanka? (05 marks)
- (ii) "Sri Lanka continues to perform poorly regarding ease of doing business and investment climate in the country". List most problematic factors for doing business in Sri Lanka. (05 marks)
- (iii) "Tourism industry has become one of the fastest growing sectors in the Sri Lankan economy". Discuss its contribution to foreign exchange earnings and employment in recent years and the challenges faced by this industry at present. (05 marks)
- (iv) "Almost half of the rural poor population in Sri Lanka consists of small scale farmers." Identify the major issues in domestic agriculture which have resulted in low productivity and low incomes. (05 marks)

* * *