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Third Term Test - Grade 12 - 2023

Index No.:

Economics - I

02 hours

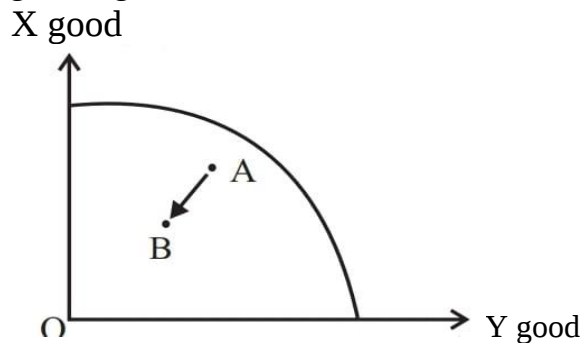
01. Which of the following represents the positive macro-economic statement?
- (1) There is a disinflation in the Sri Lankan economy at present
 - (2) The foreign employment should be strengthened to minimize the unemployment.
 - (3) The cost of living can be minimized by reducing the electricity charges.
 - (4) To minimize the unfavorable effects of trade balance, import termination of motor vehicles is a timely requirement.
 - (5) The "Aswasuma" program is important for the fair redistribution of income.
02. Which one of the following would be a decisive factor to achieve the economic growth and the sustainable development, by uplifting the social welfare through the interpersonal relationships and social bonds?
- (1) Circulating capital
 - (3) Human capital
 - (5) Natural capital
 - (2) Social capital
 - (4) Physical capital
03. Although some resources are renewable, some are non- renewable. Which of the following is the renewable resource?
- (1) Natural gas
 - (3) Sea fish
 - (4) Fuel
 - (2) Coal
 - resource
 - (5) Ferrous
04. Which of the followings would be the economic system that the priority is given for the social wellbeing by suppling the Social Protection Net and basic questions are solved by the market mechanism?
- (1) Planned economic system
 - (4) social market economic system
 - (2) traditional economic system
 - (5) socialist market economic system
 - (3) market economic system
05. When the price equals to the marginal cost ($P = MC = MB$) of a certain good, the economy obtains,
- (1) Full production
 - (4) resource allocative efficiency
 - (2) full employment
 - (5) market equilibrium
 - (3) economic growth
06. As resources that are used in the production process are non-homogeneous,
- (1) fixed opportunity cost is created,
 - (3) Economies of scale is created
 - (2) Increasing opportunity cost is created
 - (4) Opportunity cost is reduced
 - (5) The opportunity cost becomes zero



07. This is not a reason to shift the Production Possibility Curve leftward.

- (1) A destruction in the technology
- (2) Destroying resources due to a drought
- (3) Treating people differently according to ethnicity.
- (4) Imposing economic sanction on imported inputs
- (5) A decrease in labour productivity

08. According to the given PPC what would be the reason to shift the point A towards B?



- (1) A technological destruction
- (2) A decrease in productivity
- (3) An improvement in resource productivity
- (4) An improvement in unemployment
- (5) An efficient resource allocation on two goods

09. Which of the following is not an assumption in the construction of law of demand?

- (1) Considering the price and quantity demanded of the good at a given period of time.
- (2) Except price all other demand determinants remain constant.
- (3) Considering the demand of a normal good
- (4) The inverse relationship between price and quantity demanded
- (5) Considering the behavior of rational buyer

10. The substitution effect of a price reduction is,

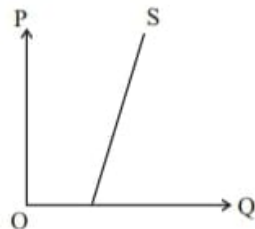
- (1) When the real income remains constant, increase in quantity demanded due to the change in nominal price.
- (2) Decrease in quantity demanded due to decrease in relative price when other demand factors remain constant.
- (3) Increase in quantity demanded due to decrease in relative price when other demand factors remain constant.
- (4) Increase in quantity demanded due to decrease in real income when the relative price remains constant.
- (5) Change in quantity demanded due to change in relative price when other factors remain constant.

11. What would be the similarity between inferior goods and normal goods?

- | | |
|--|--|
| (1) Demand reduces when income increases | (3) Negative price elasticity of demand |
| (2) Positive price elasticity of demand | (4) Negative Income elasticity of demand |
| | (5) Positive income elasticity of demand |



12. When a consumer moves downward along the demand curve of a normal good, it says that,
- (1) The consumer taste on the good has gone down
 - (2) Increase in price of substitute good
 - (3) Increase in price of complementary good
 - (4) The relative price of considerable good is decreased.
 - (5) Consumer income is increased
13. The elasticity value is changed along the demand curve which slopes downward because
- (1) The slope differs Point by point along the demand curve
 - (2) The price and quantity are deferred point by point.
 - (3) The slope gets a negative value.
 - (4) The inverse relationship between price and quantity demanded.
 - (5) The slope gets positive value.
14. Which of the following pair of equations represents the unitary demand and unitary supply?
- (1) $QD = 1200 - 5P$ and $QS = 10 + 3P$
 - (2) $QD = 1200 - 5P$ and $QS = 10P$
 - (3) $QD = 1200 - 5P$ and $QS = 10 + 10P$
 - (4) $QD = 1000 - 2P$ and $QS = -10 + 10P$
 - (5) $QD = \frac{1200}{P}$ and $QS = -10 + 10P$
15. Which of the following would be accurate related to a Giffen good?
- | <u>Price elasticity of demand</u> | <u>Income elasticity of demand</u> |
|-----------------------------------|------------------------------------|
| (1) Positive less than 1 | Positive |
| (2) Positive | Negative |
| (3) Positive | Positive Greater than 1 |
| (4) Negative | Negative |
| (5) Negative greater than one | Positive |
16. Calculate the consumer surplus at Rs. 4.00 of market price related to a certain good which gets the linear demand equation as $Q_d = 60 - 5P$.
- (1) Rs. 240/-
 - (2) Rs.300/-
 - (3) Rs.260/-
 - (4) Rs.160/-
 - (5) Rs.220/-
17. When the inverse demand function is given as $P = 50 - 0.5 Q_d$, what would be the price elasticity of demand at Rs. 20/-?
- (1) -0.36
 - (2) -0.66
 - (3) -1.44
 - (4) -1.5
 - (5) -0.166
18. Select the accurate statement related to the market supply curve of a certain good given as below.



The price elasticity supply along the given supply curve is,

- (1) Greater than and the elasticity value is constant at each point along the supply curve
- (2) Lesser than one and the elasticity value is constant at each point along the supply curve
- (3) Greater than one and the elasticity value reduces due to increase in output.
- (4) Less than 1 and the elasticity value increases due to increase in output.
- (5) Unitary and elasticity value is constant

19. This is not a factor to determine the price elasticity supply of a certain good .
- (1) Ability of factor mobility
 - (2) Nature of the good
 - (3) Ability of maintaining stocks
 - (4) Price of the good
 - (5) The time taken to change the quantity supply due to price change
20. When the consumer income is increased by 10%, the demand for x good is increased by 8% and when the price of Y is decreased by 10%, the demand for X is decreased by 20 %.
- According to given information which of the followings would be accurate?
- (1) Good X is a normal good as well as a complimentary good.
 - (2) Good X is an essential good as well as a substitute good.
 - (3) The good X is luxury good as well as a complimentary good
 - (4) The good X is a normal good as well as an Inferior good
 - (5) Good X is an essential good as well as an inferior good.
21. The demand and supply equations of a certain product in a competitive market are given as follows.

$$QD = 50 - 5P \text{ (demand function)}$$

$$QS = -10 + 5P \text{ (supply function)}$$

Calculate the price elasticity of demand at the equilibrium.

- (1) -1.4
- (2) 1.5
- (3) -1.5
- (4) -2.5
- (5) 2.5

22. When the demand and supply equations of a certain good in a market are given as, $Q_d = 100 - 4p$ and $Q_s = -30 + 6p$, what would be the excess demand at Rs.8/- ?
- (1) 20 units
 - (2) 30 units
 - (3) 40 units
 - (4) 50 units
 - (5) 60 units

23. The market equilibrium price and quantity of rice market given as Rs.140/- and 160 units respectively. If government intervenes into this market and as the legal price that 1 kg of rice can be sold in the market is fixed as Rs.150, the results of that is,
- (1) Increasing the quantity demanded of rice
 - (2) The resource allocation would be inefficient
 - (3) The total surplus increases
 - (4) The consumer surplus increases
 - (5) The demand exceeds the supply
24. The demand and supply schedule of a certain good before and after imposing a unit tax is as follows.

Price (Rs.)	Quantity demand (units)	Quantity Supply before subsidy (units)	Quantity Supply after subsidy (units)
20	800	0	400
30	600	200	600
40	400	400	800
50	200	600	1000
60	0	800	1200

What would be the amount of subsidy and the subsidy benefit consumer gets in this market?

	Unit subsidy (Rs)	Consumer advantage per unit (unit)
(1)	10	5
(2)	10	10
(3)	20	10
(4)	20	5
(5)	20	20

25. The demand function of a certain good in a market is $Q_d = 60 - 3p$. Consider the equilibrium price of this market is Rs.13/- and if this market is intervened by the government by imposing Rs. 16/- of minimum price, the consumer surplus is
 - (1) Rs. 73.50
 - (2) Rs. 54
 - (3) RS. 30
 - (4) Rs.24
 - (5) Rs.20
26. The supply equation of an industrial good is, $Q_s = -210 + 3p$. If Rs.25 of unit tax is imposed on the production of this good what would be the price that 90 quantities are supplied after tax.
 - (1) Rs. 125
 - (2) Rs.100
 - (3) Rs.95
 - (4) Rs.85
 - (5) Rs.75
27. If an indirect tax is imposed on the production of a certain good which has a perfectly elastic demand curve,
 - (1) The market price increases by the Tax amount
 - (2) No any effect created on market price.
 - (3) The market price is increased by a lower amount of the value of unit tax.
 - (4) The entire tax burden is on consumer
 - (5) Relatively a lower tax burden is bone by the consumer.
28. The result of giving a production subsidy on an agriculture good in a competitive market is,
 - (1) The total economic surplus increases
 - (2) The total economic surplus remains constant
 - (3) The total economic surplus reduces
 - (4) Consumer surplus reduces and producer surplus increases
 - (5) The producer surplus decreases and consumer surplus increases
29. When economic profit is calculated, which of the following would not be included in opportunity cost?
 - (1) Fixed cost
 - (2) variable cost
 - (3) financial cost
 - (4) Implicit cost
 - (5) Marginal cost
30. When the direct cost is covered from the total revenue, if a surplus is further remained, the firm earns,
 - (1) A normal profit
 - (2) An economic profit
 - (3) An accounting profits
 - (4) A zero economic profit
 - (5) Abnormal profit
31. Which of the following statements would not be related for the long run production process?
 - (1) The production capacity of the firm is expanded
 - (2) The output behavior is reflected by the economies of scale.
 - (3) The rate of factor combination remains constant.
 - (4) When decreasing returns to scale exists, long run average cost increases.
 - (5) Total cost would be equal to total variable cost.



32. Economies of scale of a firm,
- (1) Always causes to increase abnormal profit
 - (2) Causes to increase average cost
 - (3) Causes to create benefits for multinational companies.
 - (4) Causes to parallel increase of output.
 - (5) Courses to decrease the long run average cost.
33. Which of the following would be excluded in short run total fixed cost?
- (1) License payment
 - (2) Payment made on unskilled labour .
 - (3) Insurance premium
 - (4) Interest payments on capital
 - (5) Payments made on managers
34. The present use of the factor that the transfer earnings are earned,
- (1) Equals to economic rent
 - (2) Equals to market price
 - (3) Equals to opportunity cost
 - (4) Equals to total revenue
 - (5) Equals to marginal revenue
35. In an input, that Diminishing Marginal Returns created
- (1) Marginal product is increasing
 - (2) Marginal product is zero
 - (3) Marginal product is decreasing
 - (4) Total product is zero
 - (5) Total product is negative
36. Which of the following would be a feature of the perfectly competitive market structure?
- (1) Firms producing homogenous products.
 - (2) Barriers in entrance
 - (3) Firm maximizes profit by making the price
 - (4) Firm always earns normal profit in short run
 - (5) To remove the loss of welfare, price is assessed by the government.
37. When the intermediate consumption is removed from the Gross Value Output,
- (1) Gross Value Addition can be derived
 - (2) Fixed capital consumption can be derived
 - (3) The value of primary goods can be derived
 - (4) Net primary income can be derived
 - (5) Net indirect tax can be derived
38. Which of the following is not an institutional unit functioning in an economic area?
- (1) Non-financial corporations
 - (2) Financial corporations
 - (3) Government
 - (4) Household
 - (5) Service supplying institutions for household sector with profit motive
39. The difference between Gross Domestic Product and Net Domestic Product is,
- (1) Fixed capital consumption
 - (2) Net primary income from the rest of the world
 - (3) Net foreign secondary income
 - (4) Production subsidiary less tax
 - (5) Value of intermediate inputs



40. This is not a component of primary income

- (1) Compensation of employee
- (2) Transfer income
- (3) Operational surplus
- (4) Mixed income
- (5) Net tax on production

41. Aggregate consumption expenditure + Gross domestic capital formation + Net Exports equal to

- (1) Gross domestic expenditure
- (2) Gross domestic product
- (3) Net domestic expenditure
- (4) Disposable gross national income

42. Certain economic data a for hypothetical economy given as below.

Government purchases	300
Compensation of workers	1000
Fixed capital consumption	100
Gross investment	200
Private consumption	1800
Net export	- 50

The net domestic product at marker price of this economy is,

- (1) Rs. 2150 billion
- (2) Rs. 2250 billion
- (3) Rs. 2300 billion
- (4) Rs. 2800 billion
- (5) Rs. 3150 billion

43. Which of the following is not included in calculating the Goss Domestic Product?

- (1) Purchasing a new motor vehicle for the personal consumption
- (2) Interests on treasury bonds issued by companies
- (3) Rent income earned by renting a house.
- (4) Purchasing 100 shares from a financial company.
- (5) Purchasing an insurance dead

44. What would be the accurate answer that shows the Gross Domestic Product at current market price in American Dollars in 2022 in Sri Lanka. (Rupee in billion)

- (1) 72
- (2) 75.2
- (3) 77.1
- (4) 89
- (5) 90

45. If the consumption function of a closed economy that the government is absent is $C = 50 + 0.75 Y$, what would be the investment level when equilibrium income is when equilibrium income is Rs 1500 million.

- (1) Rs. 325 million
- (2) Rs.950 million
- (3) Rs.1025 million
- (4) Rs.1125 million
- (5) Rs.1175 million

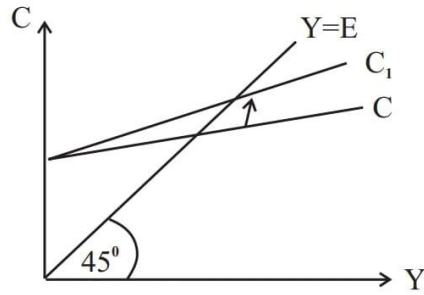
46. The autonomous consumption of a hypothetical economy is Rs 200 million and for the increase in each rupee, 75 cents is used for the consumption.

What would be the consumption function of this economy if government intervenes into the economy and earns Rs 20 million of tax income?

- (1) $C = 400 + 0.75 y$
- (2) $C = 200 + 0.75 y$
- (3) $C = 175 + 0.75 y$
- (4) $C = 180 + 0.75 y$
- (5) $C = 185 + 0.75 y$



47. The change in consumption function of a hypothetical economy is as follows.



According to the diagram, if the consumption function is changed from C to C1, the accurate answer is,

	Autonomous expenditure multiplier	Equilibrium National Income	Marginal Propensity to Save
1	Increases	Increases	Decreases
2	Increases	Increases	Increases
3	Remains constant	Decreases	Increases
4	Remains constant	Increases	Decreases
5	Reduces	Increases	Increases

48. The Marginal Propensity to Save of a closed economy that only the fixed tax is existing is 0.2. What would be the increase in output due to increase in government purchases by Rs 100 billion?

- (1) Rs 100 billion (3) Rs.400 billion (5) Rs.600 billion
 (2) Rs.300 billion (4) Rs.500 billion

49. Assume, the macro-economic equilibrium in a simple economy is Rs. 5000 million and the Marginal Propensity to Consume is 0.9. What would be the increase in investment due to increase in equilibrium income up to Rs.6000 million?

- (1) 100 (2) 500 (3) 800 (4) 900 (5) 1000

50. When the consumption curve lies above the equilibrium national income

- (1) The marginal propensity to consume equals to the average propensity to consume
 (2) Average propensity to consume is greater than 1
 (3) Average propensity to consume is less than 1
 (4) The Marginal Propensity to Save exceeds the Marginal Propensity to Consume
 (5) Marginal Propensity to Save exceeds the Average Propensity to Consume



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Provincial Department of Education - NWP

තෙවන වාර පරීක්ෂණය - 12 ශ්‍රේණිය - 2023
Third Term Test - Grade 12 - 2023

Index No.:

Economics - II

03 hours

(Additional time for reading 10 minute)

Section A

- 01.
- (i) "Each and every economic issue is related to the choice". Do you agree with this statement? Discuss. (4 marks)
 - (ii) As a production factor, how to differ labour from the human capital. (4 marks)
 - (iii)
 - a) Define the concept of "capital". (2 marks)
 - b) Name four characteristics of a successful entrepreneur. (2 marks)
 - (iv) What are the conditions which should be satisfied in achieving the economic efficiency? (4 marks)
 - (v) What would be the effect towards the production possibilities curve due to the decrease in resource endowment of the economy? Explain the answer using a relevant diagram. (4 marks)
- 02.
- (i) What are the institutional features of an economic system? (4 marks)
 - (ii) a) Mention three main features of a market economic system. (3 marks)
 - b) Why do you say that the insufficient availability of incentives is a significant drawback in a planned economy? (3 marks)
 - (iii) How to differ the "Social market economic system" from the "Socialist market economic system"? (4 marks)
 - (iv) Discuss the significance of specialization in increase in the production of an economy? (6 marks)
- 03.
- (i) Mention five factors to change the demand. (5 marks)
 - (ii) Define the "consumer surplus" and "producer surplus" (4 marks)
 - (iii) The demand and Supply equations of a hypothetical market given as below.
 $Q_d = 2000 - 200p$
 $Q_s = -1000 + 400p$
 - (a) Calculate the equilibrium price and quantity. (2 marks)
 - (b) What would be the price elasticity demand and price elasticity of supply at the equilibrium? (2 marks)
 - (c) Calculate the economic surplus at the equilibrium. (3 marks)
 - (iv) In a certain market, X and Y are complementary goods. When other factors remain constant, what would be the effect towards the equilibrium price and equilibrium quantity of x good due to increase in the supply of Y good? Explain using a relevant diagram. (4 marks)

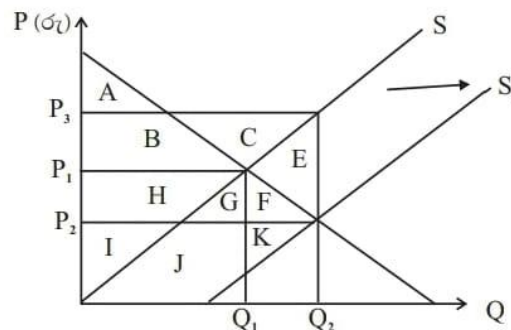


4.

- (i) Explain the common actions taken by the government to make the income of agricultural crops' farmer stable? (6 marks)
- (ii) The maximum price is imposed by the government on essential goods and services to facilitate the consumer.
 - (a) What do you mean by the maximum price? (2 marks)
 - (b) Due to the maximum price, would the resource allocation be efficient? Explain your answer using a diagram. (6 marks)
- (iii) The demand and supply equations for a certain good given as below.

$$QD = 60 - 3P \quad QS = -10 + 2P$$
 Assume, the government has decided to impose Rs.16/- of minimum price on this good.
 - (a) What would be the excess supply of this market due to the minimum price? (2 marks)
 - (b) Calculate the consumer surplus after the minimum price (2 marks)
- (iv) What are the measures taken by the government to certify the minimum price? (2 marks)

5. (i) The following diagram depicts the welfare effects due to the provision of production subsidy by the government.



Give answers for followings using the above diagram.

- (a) Consumer surplus due to subsidy.
 - (b) Producer surplus due to subsidy
 - (c) Government cost towards the provision of production subsidy. (2 x 3 = marks)
- (ii) The demand and supply equations for a certain marker given as below.
- $$Qd = 300 - 10p \quad Qs = -100 + 10p$$
- Assume the government suggests to provide Rs 6.00 of production tax on this good.
- (a) Show the above information in a diagram and derive the equilibrium price and quantity. (4 marks)
 - (b) What would be the government revenue due to the tax imposed on domestic goods? (2 marks)
 - (C) Calculate the dead weight loss due to tax. (4 marks)
- (iii) When a unit subsidy is given on the producer for an agriculture good which has inelastic supply and elastic demand, how to share the economic surplus between consumer and producer? Explain your answer using a diagram. (4marks)

Section A

06.

- (i) How to classify market structures? (4 marks)
- (ii) Mention four salient features of a Monopoly market structure. (4 marks)
- (iii) Point out the relevant market structure for Goods given below.
 - a. Restaurant
 - b. salon
 - c. railway
 - d. Rupawahini service
 - e. Rice and wheat (5 marks)
- (iv) Explain the difference between given two concepts.
 - a. Average product and average cost
 - b. Marginal product and marginal cost (7 marks)

07.

(i)

- (a) Explain the production function (2 marks)
 (b) What is the difference between short run and long run in the production process (6 marks)

(ii) Compare and contrast the Monopoly market and the perfect competition based on following characteristics.

Feature	Perfect Competition	Monopolistic Competition
1. Number of firms		
2. Nature of the good		
3. Entrance & exit		
4. Price determination		
5. Demand curve		

(For each comparison 01 mark and altogether 05 marks)

(iii)

- (a) There are certain barriers at the entrance and exit of some industries. Mention three natural and artificial barriers to enter into the firm in monopoly industry. (3 marks)
 (b) Define the economic rent and transfer earnings of a factor and show how factor earnings are contributed by economic rent and transfer earnings at the situations of Elastic and inelastic factor supply. (4 marks)

08.

(i) Explain whether the following transactions are included or not in national accounts and give reasons.

- Stitching clothes by housewife for own family members.
- Providing transport facilities by the father for children to go to school
- The residential services given by staying in own house.
- Cultivating agriculture crops for the self-consumption. (4 marks)

(ii) Discuss the difference between intermediate inputs and primary inputs used in the production process. (4 marks)

(iii) Certain information of a hypothetical Market given below. All the transactions are in rupee in million.

Workers' compensation	4500
Gross operational surplus	9000
Fixed capital consumption	200
Other tax less subsidy on production	100
Net tax on product	1600
Net foreign primary income	-600
Net foreign secondary income	2000

Calculate followings.

- Gross value added at basic price (2 marks)
- Gross Domestic Product (2 marks)
- Net national income (2 marks)

(iv) Certain information of a simple economy that state sector and foreign Sector are absent given below.

Consumption function $C = 0.8 Y$
 Investment $I = 400$

- (a) What would be the equilibrium national income of this economy? (2 marks)
 (b) Prove that the Savings and investments of this economy are equal. (2 marks)
 (c) If the above motioned consumption function ($C = 0.8 Y$) is changed as $C = 200 + 0.8 Y$, what would be the new national income? (2 marks)

09.

- (i) What are the residential units contributing for the production process of the total economy? (4 marks)
- (ii) Explain the difference between Gross Domestic Product and the Gross National Income of an economy. (4 marks)

- (iii) Using the information given in hypothetical economy, answer for following questions. (Rupee in Million)

Value addition in agriculture sector	1800
value addition in industrial sector	2000
value addition in service sector	2500
Trade margins	100
Foreign primary income receives	600
Foreign primary income payment	700
Net tax	200

Calculate,

- a. Value addition at basic price. (1 mark)
- b. Gross Domestic Production at market price (2 marks)
- (iv) In a certain economy the equilibrium national income increases from 500 to 550 and the consumption expenditure increases from 450 to 480. The autonomous consumption expenditure is 100.
- (a) What would be the marginal propensity to consume of this economy. (1 mark)
- (b) Write down the consumption function and the savings function (2 marks)
- (v) Explain the difference between marginal propensity to consume and average Propensity to consume. (4 marks)

10.

- (i) Why the interest paid by the government is not a component in national income? (3 marks)
- (ii) What do you mean by the GDP deflator? how to calculate it? (3 marks)
- (iii) What are the major expenditure components in calculating the Gross Domestic Product at expenditure method? (4 marks)
- (iv) In a certain economy where $C = 50 + 0.75 Y_d$, the investment expenditure is Rs.500 million, the government consumption expenditure is Rs. 400 in million and the tax revenue of the government is Rs.400 billion.
- (a) What would be the equilibrium national income of this economy (2 marks)
- (b) If the potential Gross Domestic Product is 3600 million, is there any possibility of creating either inflationary gap or deflationary gap? by how much? (2 marks)
- (v) Draw and explain the way the equilibrium Gross Domestic Product is determined according to the aggregate income and expenditure approach as well as withdrawal equals injection approach in an economy where both government and foreign trade are included (6 marks)

