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JMC- Jayasekera Management Centre (Pvt) Ltd

**Advanced Level Seminar Series by JMC**

*Coordinating Office*

**JMC Jayasekera Management Centre (Pvt) Ltd**

No. 136. Yakkala Road. Gampha.,

Tel : 0332229122 | Mob : 0714114794 | Web : [www.jmc.lk](http://www.jmc.lk)

# GCE (A/L) Examination – 2021

## Target Paper- Economics

Prepared by:-  
**Sanath Handaragama**  
BA (Hons – Econ), MA (Econ), MAAT, PhD.(Econ-Reading)  
Lecturer in Economics and Banking  
(Voice 0717360284/0718414464)

### Instructions

Answer five (05) questions only  
At least two questions should be selected from “Part A” and “part B”

## PART A

### Question No.01

- Explain why does an economy face basic economic problems and how does an economy solve them? (04 marks)
- Explain the effectiveness of market economic system and command economic system in achieving the condition of production efficiency. (04 marks)
- Use the production possibilities diagram to explain how specialisation and international trade can improve the standard of living of consumers in a country. (04 marks)
- Assume “Country A” managed the impact of COVID-19 Pandemic without a single death. However “Country A” had to practice number of lock downs of the economy during the period. “Country B” was not able to manage the impact of COVID-19 Pandemic properly. There were significant number of deaths even though “Country B” also practiced lock down process time to time”.
  - Explain the impact of COVID-19 Pandemic for “Country A” using the Production Possibilities Curve. (04 marks)
  - Explain the impact of COVID-19 Pandemic for “Country B” using Production Possibilities Curve. (04 marks)

### Question No.02

- Explain how do economists use the concept of elasticity to distinguish between normal goods and inferior goods and between substitutes and complements. (04 marks)
- “Consumer surplus is changed by both price demand elasticity and price supply elasticity”. Do you agree? Justify your answer. (04 marks)
- Explain whether a business firm is always able to increase its revenue by increasing the price of the commodity. (04 marks)
- Explain, using a relevant diagram, why demerit goods are heavily taxed. Explain using a relevant diagram (04 marks)
- “The prices of face masks have been reduced even in the face of a significant increase in demand in recent period”. Explain using an appropriate diagram. (04 Marks)

### Question No.03

- Explain why does government directly control the market prices? (04 marks)
- Evaluate the likely economic effects of the introduction of guaranteed minimum prices to encourage more domestic agricultural production. Use an appropriate diagram in your answer. (04 marks)
- Compare the effectiveness of deficiency payment system and government purchase policy on social welfare. (04 marks)
- Explain how does production quota system is used to control over utilization of natural resources? (04 marks)

- e) Consider the Market Demand and Supply Equations given below for a commodity.  
 $Q_d = 48 - 2P \rightarrow$  Demand Equation

$$Q_s = P \rightarrow \text{Supply Equation}$$

Where  $Q_d$  is demand quantity,  $Q_s$  is supply quantity and the  $P$  is the price in Rs.  
 Assume that the government imposes a maximum price regulation at Rs.10/- per unit and the government has no an effective interference in the market. Hence, sellers sell the product at Black Market Price. Calculate Consumer Surplus and Producer Surplus after the Black Market Price is practiced. (04 marks)

#### Question No.04

- a) "If a firm is experiencing diminishing returns and diseconomies of scale, it means that its output must be decreasing". Explain whether this statement is true. (04 marks)
- a) Identify the relationships between Marginal Production and Average Production using a relevant diagram. (04 marks)
- b) Explain whether short run profit maximizing output level of a perfectly competitive firm is always efficient. (04 marks)
- c) Explain why a perfectly competitive market faces a normal demand curve while a perfectly competitive firm faces a perfectly elastic demand curve. (04 marks)
- d) How does a monopoly firm continue its monopoly status even in a free market economic system? (04 marks)

#### Question N0.05

- a) Consider the data given below of an economy

Item	Value in Rs. Bn.
Gross Value Added in Agricultural Sector at Basic Price	1,000
Final consumption expenditure	4,000
Gross Value Added in Industrial Sector at Basic Price	2,000
Investment Expenditure	2,000
Gross Value Added in Service Sector at Basic Price	3,000
Net Exports	1,000
Compensation of Employees	1,000
Net Other Taxes on Production	1,000
Gross Operating Surplus	4,000
Mixed Income	1,000
Net Indirect Tax	1,000
Consumption of Fixed Capital	1,000
Net Primary Income From Abroad	500
Net Secondary Income From Abroad	500

Calculate the followings

- 1) Gross Domestic Production under production method. (01 marks)
  - 2) Gross Domestic Production under expenditure method. (01 marks)
  - 3) Gross Domestic Production under income method (01 marks)
  - 4) Disposable Gross National Income (01 marks)
- b) "National income is always higher than personal income". Do you agree? Explain. (04 marks)

- c) What are the transactions given below included in Gross Domestic Production. Comment each answer.
- 1) Government expenditure to produce Aurvedic Medicine for COVID 19 patients
  - 2) Free seminar conducted by “Jayasekara Management Centre” to Advanced Level students
  - 3) A village family use river water for consumption purpose.
  - 4) Rs.10 million investment on a Debenture
  - 5) Interest paid by an individual to a bank for using a credit card.
  - 6) Income of an ice cream seller
  - 7) A carpenter produces a chair for the family use
  - 8) Money paid by a boy for using the service of a fitness centre. (04 marks)
- d) Explain why an economy might be in equilibrium at less than a full employment level of output and critically evaluate alternative fiscal policy measures which might be used to move the economy to a full employment level of output. (04 marks)
- e) Explain the concept of Output Gap using the Keynesian Cross Diagram. (04 marks)

## PART B

### Question No.06

- a) Explain the relationships between
- 1) Interest rate of a treasury bill and Money Demand
  - 2) Income and Money Demand. (04 marks)
- b) Explain how does Central Bank use Stranding Rate Corridor to control the interest rate in interbank call money market. (04 marks)
- c) “The main challenge of any commercial bank is to manage the Liquidity and Profitability”. Explain. (04 marks)
- d) Government of Sri Lanka has taken a policy decision to promote Organic Fertilizer in agricultural sector. Explain how does Central Bank use its monetary policy to achieve this objective of the government. (04 marks)
- e) Consider the balance sheet of a banking system given below:

Liabilities (Rs. billion)		Assets (Rs. billion)	
Demand Deposits	10,000	Reserves	1,000
Capital	5,000	Deposits at Central bank	3,000
		Loans	11,000
Total	15,000	Total	15,000

Currency held by the public is Rs.2,000 billion. Assume SRR is 10%

- 1) Calculate Narrow Money Multiplier of this economy. (02 marks)
- 2) Assume Central Bank increases SRR to 20%. Calculate money supply of the economy after completion of money contraction process. (02 marks)

### Question No.07

- a) “The best way to increase economic welfare is to encourage competition in the market”. Explain. (04 marks)
- b) “The free market is not always the way to achieve a sustainable, efficient use of economic resources. Even the famous economist, Adam Smith recognised that there is a need for some government involvement”. Explain. (04 marks)
- c) Explain why both merit goods and demerit goods are examples of private goods. Discuss whether merit goods and demerit goods are best provided by a market economy. (04 marks)
- d) Explain the requirement of Fiscal Consolidation to reduce budget deficit of Sri Lanka. (04 marks)
- e) Explain the recent situation of government budget of Sri Lanka. (04 marks)

**Question No.08**

- a) Explain how a significant rise in the general price level will affect the current account balance of the balance of payments of an economy. (04 marks)
- b) Over the course of a year, a nation tracked its foreign transactions and arrived at the following amounts.

Item	USD billion
Deficit in Primary Income Account	100
Surplus in Trade Account	200
Service Account – Net	-10
Net Capital Transfers	20
Private Secondary Income – net	-10
Official Secondary Income – net	50
Net acquisition of Non produced assets by foreigners	100
Financial Account – Liabilities	200
Financial Account – Assets	400

- 1) What is this nation's current account balance? (02 marks)
- 2) What is the nation's capital account balance? (02 marks)
- 3) What is the nation's financial account balance? (02 marks)
- c) Consider the Exchange Rate between USD and LKR under Free floating Exchange Rate System. Explain using relevant diagrams, how do following events affect on Exchange Rate between USD and LKR.
- 1) Strict control of vehicle import by the government of Sri Lanka. (02 marks)
- 2) Loss of foreign remittances sent by Sri Lankans who are working in Middle East countries. (02 marks)
- d) Consider the data given below on the production possibilities of Country "A" and "B" in producing "X" and "Y".

Country A	
Good "X"	Good "Y"
0	200
50	0

Country B	
Good "X"	Good "Y"
0	200
100	0

- 1) Draw PPCs of both countries separately assuming constant returns to scale. (02 marks)
- 2) If both countries engage in trade, how each country specialize in producing what commodity. (02 marks)
- 3) Assume two countries agree to trade at exchange rate of 1X:3Y. Develop Consumption Possibilities Curves for both countries. (02 marks)

**Question No.09**

- a) "Economic Development is a multi-dimensional process". Explain. (04 marks)
- b) What are the conditions necessary for economic growth to improve the quality of life? (04 marks)
- c) "GDP per capita is a perfect measure to evaluate economic well-being". Do you agree? Comment. (04 marks)
- d) Explain the recent situations in multi-dimensional poverty in Sri Lanka. (04 marks)
- e) "The economic growth and stability objectives are incompatible each other". Explain. (04 marks)

**Question No.10**

- a) What do you mean by a social market economy? Explain how does social market economic system help for economic growth of Sri Lanka. (04 marks)
- b) What are the current threats for Sri Lankan economy in achieving macroeconomic objectives? (04 marks)
- c) Critically evaluate Import Substitution Industrial Policy and Export Promotion Industrial Policy that have been practiced time to time in Sri Lanka. (04 marks)
- d) What are the importances of foreign employments for a country like Sri Lanka. (04 marks)
- e) Explain the validity of government development strategy that "Foreign Investments instead of Foreign debts". (04 marks)

*End of the Paper*