Total marks for this paper is 100 marks.

There are three parts in this question paper. All questions in Part One and Part Two are COMPULSORY.

Part One includes 20 Compulsory multiple choice questions.

Select the most appropriate answer from the given choices and mark it in the given space in the answer book.

Part Two includes 06 Compulsory short answer questions.

Part Three includes 02 Essay Type Questions. Answer only 01 Question from this part.

Instructions to candidates

1. State your Registration Number on the front cover of the answer book and on each and every additional paper attached to it. Your name must not appear anywhere in the answer book or answer scripts
2. Always start answering a question on a new page
3. You are reminded that answers should not be written in pencil or red pen except in drawing diagrams
4. Answer the questions using:
   - Effective arrangement and presentation
   - Clarity of expression
   - Logical and precise arguments
   - Clear diagrams and examples where appropriate
5. Illegible hand writing and language errors will be penalised
PART ONE

Read the question and select the most appropriate answer out of the four given choices.
Tick your choice in the given space in the answer booklet.

Question 01

Question 01.1
The payment made to an unskilled machine operator in a garment factory is an example for:

a) Rent paid for land
b) Profit paid for entrepreneurship
c) Wage paid for capital
d) Wage paid for labour

Question 01.2
All natural resources can be considered as:

a) Land
b) Labour
c) Capital
d) Entrepreneurship

Question 01.3
You have Rs.1000/- You would like to buy a t-shirt and watch a movie. A t-shirt costs Rs.1000 and a movie ticket is also 1000. You choose to buy a t-shirt instead of watching a movie. This scenario provides an example for:

a) Scarcity, opportunity cost, and production possibility
b) Demand, normal goods, and inferior goods
c) Scarcity, choice, and opportunity cost
d) Income, choice, and demand

Question 01.4
An economy currently produces 100 units of X and 100 units of Y. It can increase production of both because:

a) The resources in the economy are fully employed
b) There are unemployed resources in the economy
c) A natural disaster destroys production facilities in the economy
d) All of the above
Question 01.5
All man made items are known as:

a) Land  
b) Capital  
c) Labour  
d) Entrepreneurship

Question 01.6
In relation to production possibility, a change in price levels will affect:

a) the monetary value of what can be produced and not the volume  
b) the volume of what can be produced and not the monetary value  
c) both the monetary value and the volume of what can be produced  
d) neither the monetary value nor the volume of what can be produced

Question 01.7
An increase in consumer income will increase prices of a good in the market is:

a) The good is a normal good  
b) The good is an inferior good  
c) The good is a giffen good  
d) The good is a complement

Question 01.8
Supply is defined as:

a) The quantity of a product that buyers would be willing to buy at a given price  
b) The quantity of a product the existing or would-be buyers would want to purchase at a given price  
c) The quantity of a product the existing or would-be sellers would want to produce at a given price  
d) The quantity of a product the existing or would-be sellers would want to produce at a given cost of production

Question 01.9
The income of a consumer increases by 10% and the demand for the good increases by 8%. The demand for the good is:

a) Income elastic  
b) Income inelastic  
c) Price elastic  
d) Price inelastic
Question 01.10
The demand for goods by firms and government authorities is known as:

a) Firm demand  
b) Government demand  
c) Total demand  
d) Derived demand

Question 01.11
The theory that is concerned with how market prices for goods are arrived at through interaction of demand and supply is:

a) The Theory of Law of Supply  
b) The Theory of Law of Demand  
c) Price Elasticity of Demand Theory  
d) Price Theory

Question 01.12
The total cost of producing 10 units is Rs 90/- while the total cost of producing 11 units is Rs 110/-.

a) The marginal cost of producing the 11\textsuperscript{th} unit is 10  
b) The marginal cost of producing the 10\textsuperscript{th} unit is 9  
c) The marginal cost of producing the 10\textsuperscript{th} unit is 20  
d) The marginal cost of producing the 11\textsuperscript{th} unit is 20

Question 01.13
The total revenue from selling 2 units is Rs 16/- while the total revenue from selling 3 units is Rs 21/-.

a) The marginal revenue of selling the 2\textsuperscript{nd} unit is 8  
b) The marginal revenue of selling the 2\textsuperscript{nd} unit is 5  
c) The marginal revenue of selling the 3\textsuperscript{rd} unit is 5  
d) The marginal revenue of selling the 3\textsuperscript{rd} unit is 7

Question 01.14
The difference between accounting profit and economic profit is:

a) Implicit costs  
b) Explicit costs  
c) Fixed costs  
d) Variable costs
Question 01.15
When firms are making losses they will stop production if:

a) marginal revenue is greater than marginal cost
b) marginal cost is greater than average variable cost
c) price is less than average variable cost
d) price is less than average fixed cost

Question 01.16
A price cartel will be less successful if:

a) All firms are members of the cartel
b) The demand for the commodity is elastic
c) The demand for the commodity is inelastic
d) All of the above

Question 01.17
Due to product differentiation the demand curve slopes downward in a:

a) Monopoly
b) Monopolistic competition
c) Perfect competition
d) All of the above

Question 01.18
Advertising and sales promotions are examples for:

a) Price competition
b) Price wars
c) Product differentiation
d) Non price competition

Question 01.19
A kinked demand curve is elastic at prices above prevailing prices because:

a) If the firm increases prices other firms would keep their prices lower
b) If the firm reduces prices other firms would also reduce their prices
c) If the firm increases prices other firms would also increase their prices
d) If the firm reduces prices other firms would keep their prices higher

Question 01.20
Which of the following industries in Sri Lanka can be considered as an oligopoly?

a) Paddy farmers
b) Hair salons
c) Commercial banks
d) Grocery shops

(Total 20 Marks)
PART TWO

This part includes SIX compulsory short answer questions. Answer all questions.

Question 02
Briefly explain the following concepts.

i. Microeconomics
ii. Macroeconomics
iii. Scarcity
iv. Opportunity cost
v. Production possibility curve

(2 Marks *5 = 10 Marks)

Question 03
i. Explain what is meant by cross price elasticity of demand.

(03 Marks)

ii. Briefly explain what determines the value of cross price elasticity of demand.

(03 Marks)

iii. Briefly explain what is meant by a normal good and an inferior good.

(04 Marks)

(10 Marks)

Question 04
Explain with graphs how the following independent events impact the market for tea.

a. Increase in price of coffee
b. Increase in taxes imposed on fertiliser

(10 Marks)

Question 05
i. State four (04) reasons as to why if each employee performs all operations on a single item, production is likely to be low.

(04 Marks)

ii. Briefly explain the relationship between average cost and marginal cost.

(06 Marks)

(10 Marks)
Question 06
i. Using a graph explain the long run equilibrium of a firm in a perfect competition.  
   (06 Marks)
ii. Briefly explain why some argue that monopolistically competitive firms are inefficient.  
   (04 Marks)
   (10 Marks)

Question 07
i. State six (06) characteristics of a perfect competition  
   (06 Marks)
ii. Briefly explain characteristics of an oligopoly.  
    (04 Marks)
    (10 Marks)

(Total 60 Marks)
PART THREE

This part includes TWO Essay Type Questions
Answer only ONE question from this part

Question 08
i. State three (03) determinants of demand and three (03) determinants of supply of life insurance in Sri Lanka and explain how these determinants impact the demand/supply for life insurance in Sri Lanka. (12 Marks)

ii. a. Briefly explain what a mixed economy is.
b. State five (05) ways that the government can influence an economy. (08 Marks)
(Total 20 Marks)

Question 09
“Monopolies are always not good for an economy”. Evaluate this statement explaining five (05) arguments in favour of and five (05) arguments against a monopoly. (Total 20 Marks)
(Total 100 Marks)

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