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
In what economic system is the decisions and choices about resource allocations are made by the Government?

a) Central planning system  
b) Market economy  
c) Mixed economy  
d) Market equilibrium

Question 01.2
The Government operates with an assumption that it will seek to:

a) Earn tax revenues from people and spend the money on people  
b) Charge less taxes and give people more benefits  
c) Maximise the utility of consumers  
d) Maximise the welfare of the people

Question 01.3
A point within (to the left) of the production possibility curve is regarded as inefficient because:

a) The production of one commodity cannot be increased unless the production of the other commodity is reduced  
b) The production of both commodities can be increased  
c) The production of both commodities is done with full employment of resources  
d) The production of one commodity is at its highest level while the production of the other commodity can be increased further

Question 01.4
The production of X was increased by 2 units which resulted in a reduction in the production of Y by 4 units. This is shown on the production possibility curve as:

a) A movement from a point inside the curve to a point on the curve  
b) A movement along the curve  
c) A point on the curve  
d) A point within the curve
**Question 01.5**
A firm wishes to study how its consumers make decisions on what commodities they buy and how much they buy. This study is within the scope of:

a) Macroeconomics  
b) Market equilibrium  
c) Microeconomics  
d) Scarcity, choice opportunity cost

**Question 01.6**
A firm increased the production of X by 4 units. To do this the firm had to hire more workers. It also had to shift employees from production of Y to X. The opportunity cost of the decision to produce more Y is:

a) The cost of hiring more workers  
b) The lost output of Y as a result of shifting employees from Y to X  
c) The cost of hiring more workers and the lost output of Y as a result of shifting employees from Y to X  
d) The cost of producing the 4 units of X

**Question 01.7**
Sri Lankan economy is an example of:

a) Command economic system  
b) Market economic system  
c) Mixed economic system  
d) Central planning economic system

**Question 01.8**
The production possibility curve might not be a straight line because:

a) The opportunity cost remains constant  
b) Resources might be unemployed  
c) The price of goods can change  
d) The opportunity cost change

**Question 01.9**
When the price of X increases by 10% the demand of Y reduces by 4%:

a) X is a complement of Y  
b) X is a substitute of Y  
c) X has inelastic demand  
d) Y has elastic demand
Question 01.10
The income of consumers rise by 10% and the demand for the good falls by 4%:

a) The good is an inferior good  
b) The good is a normal good  
c) The good has elastic demand  
d) The good is an essential good

Question 01.11
Which of the following statements is true regarding the relationship between average cost and marginal cost.

a) When average cost falls marginal cost falls  
b) When average cost falls marginal cost rises  
c) When average cost falls marginal cost is more than average cost  
d) When average cost rises marginal cost is more than average cost

Question 01.12
Marginal revenue can be explained as:

a) The price per unit sold  
b) The addition to total revenue from the sale of one extra unit  
c) The sales revenue from the sale of units  
d) The increase in price as a result of selling one more unit

Question 01.13
Short run in production can be explained as:

a) The first month of setting up business  
b) The first year of setting up business  
c) The time period where all inputs are variable  
d) The time period where at least one input is fixed

Question 01.14
When a firm’s marginal revenue exceeds the marginal cost;

a) A firm is making normal profits  
b) A firm can increase profits by producing and selling less units  
c) A firm can increase profits by producing and selling more units  
d) A firm should increase prices to increase profits
**Question 01.15**
Which of the following occurs in a perfect competition but not in a monopolistic competition?

a) Average revenue = Average cost  
   b) Average revenue = Marginal revenue  
   c) Marginal revenue = Marginal cost  
   d) Average revenue = Price

**Question 01.16**
A firm in perfect competition is where:

a) A large number of firms sell differentiated products with free entry and free exit  
   b) A large number of firms sell differentiated products with barriers to entry and exit  
   c) A large number of firms sell homogeneous products with free entry and free exit  
   d) A large number of firms sell homogeneous products with barriers to entry and exit

**Question 01.17**
Which of the following is false regarding a monopoly?

a) Monopolists use resources in the most efficient way possible  
   b) Monopolists can spend more on research and development  
   c) Monopolists can make supernormal profits at the expense of the consumer  
   d) Monopolists might be slack about cost control

**Question 01.18**
The market structure with homogeneous or differentiated products is:

a) Perfect competition  
   b) Monopolistic competition  
   c) Oligopoly  
   d) Monopoly

**Question 01.19**
An oligopolist makes decisions considering how its rival will respond and how this response will affect the firm. This is known as:

a) Price leadership  
   b) Price cartel  
   c) Kinked demand curve  
   d) Interdependence
Question 01.20
Which of the following industries in Sri Lanka can be considered as a monopolistically competitive industry?

a) Advanced Level tuition classes
b) Banking
c) Insurance
d) Paddy

(Total 20 Marks)
PART TWO

This part includes SIX (06) compulsory short answer questions.
Answer all questions.

Question 02
a) Economists assume that people behave rationally. State an assumption each for the consumer and producer based on this statement. 

b) Briefly explain the four factors of production stating their payments 

Question 03
a) Briefly explain what is meant by a market economy. 

b) Briefly explain how the following independent events impact the market for wooden furniture.
   i. A rise in price of timber used to make furniture
   ii. A shift in consumer preference towards wooden furniture 

Question 04
a) Explain income and cross price elasticity of demand and outline the possible values they could take. 

b) Briefly explain how the availability of substitutes determine the price elasticity of demand. 

Question 05
a) The average cost of producing 4 units is 7, while the average cost of producing 5 units is 6. How much is the marginal cost of producing the 5th unit? 

b) A businessman recently set up a business. In the current month he earned 220000 as sales revenue and spent 130000 to buy the needed material, pay salaries, and other expenses. If he had done a job (which he gave up to start the business) he would have earned 100000 in the current month. Using supporting calculations explain whether his decision to start the business was a rational one.
Question 06
  a) ‘The marginal cost of an oligopolist might change but its price might not’. Explain this statement with the aid of a graph. (05 Marks)
  b) ‘For a cartel to succeed the demand should be inelastic’. Explain this statement. (05 Marks)

Question 07
  a) Briefly explain characteristics of a firm in monopolistic competition (10 Marks)

(Total 60 Marks)
PART THREE

This part includes TWO (02) Essay Type Questions
Answer only ONE (01) question from this part

Question 08

a) State the determinants and how those impact the demand and supply of washing machines (three each).

b) Briefly explain what price elasticity of demand is and how it helps to make decisions on pricing of the product.

(Total 20 Marks)

Question 09

a) Barriers to entry can be classified into several groups. Briefly explain four (04) such groups.

b) Using graphs, explain the short run and long run equilibrium of a firm in perfect competition

(Total 100 Marks)

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