www.AlevelApi.com

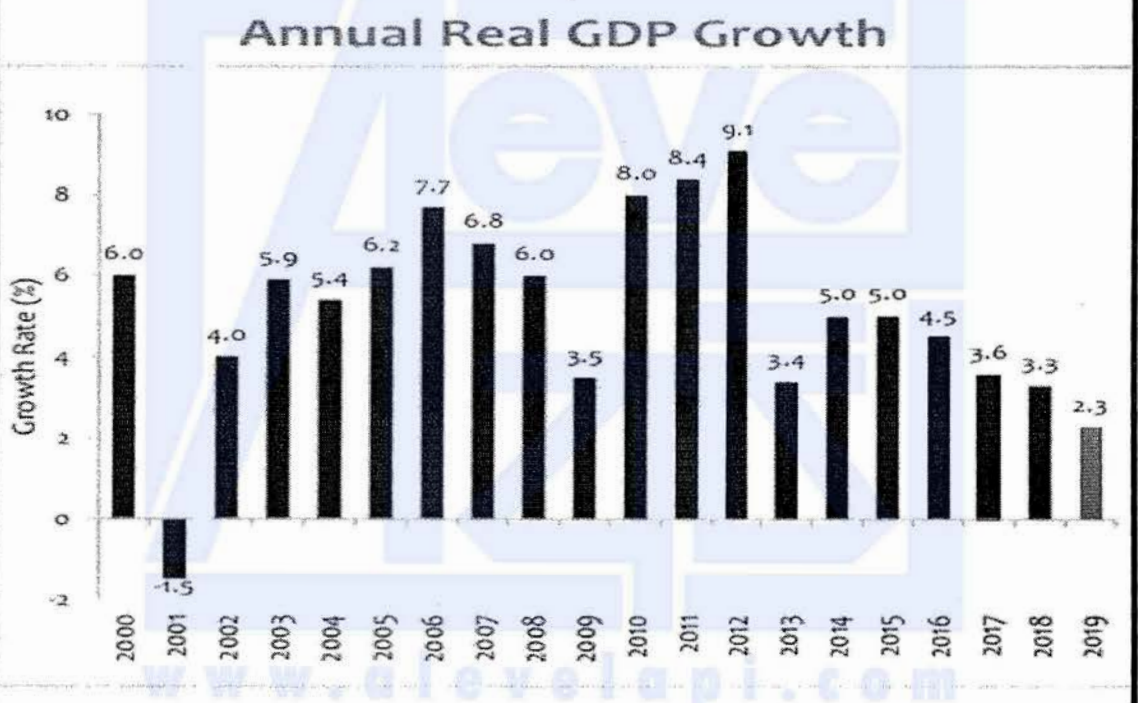
# Department of Examinations - Sri Lanka

## G.C.E. (A/L) Examination - 2020

# 21 - Economics

# New Syllabus

## Marking Scheme




This has been prepared for the use of marking examiners. Some changes would be made according to the views presented at the Chief Examiners' meeting

Amendements to be included

උසස් පෙළ විද්‍යා/ගණිත/කලා/වාණිජ හා තාක්ෂණ විෂය ධාරාවන්ට අදාල සියලුම ප්‍රශ්න පත්‍ර/සටහන් හා තවත් බොහෝ දෑ ලබා ගැනීමට පිවිසෙන්න www.alevelapi.com වෙත.

# CONTENTS


| | Page To | From |
|---|---|---|
| Economics - 1 | 03 | - 10 |
| Marking Scheme for Economics - I | 11 | - 11 |
| Marking Scheme for Economics - II | 12 | - 43 |
| Notes | 44 | |


www.alevelapi.com



උසස් පෙළ විද්‍යා/ගණිත/කලා/වාණිජ හා තාක්ෂණ විෂය ධාරාවන්ට අදාළ සියලුම ප්‍රශ්න පත්‍ර/සටහන් හා තවත් බොහෝ දෑ ලබා ගැනීමට පිවිසෙන්න www.alevelapi.com වෙත.

# (21) Economics

## STRUCTURE OF QUESTION PAPERS

Paper I - 02 Hours

There are 50 multiple-choice questions and each question has 5 optional answers. All questions are compulsory. Each correct answer is given 02 marks and the total marks will be 100.

Paper II - 03 Hours

This paper consists of two sub-sections.
Sub-section A – 5 structured type questions
Sub-section B – 5 structured type questions
Answer five questions only, selecting minimum of two questions from each sub-section. Each question has 20 marks and the total marks will be 100.

Calculation of the final mark = Paper I 100

= Paper II 100

Final mark = 200 ÷ 2 = 100

www.alevelapi.com



උසස් පෙළ විද්‍යා/ගණිත/කලා/වාණිජ හා තාක්ෂණ විෂය ධාරාවන්ට අදාළ සියලුම ප්‍රශ්න පත්‍ර/සටහන් හා තවත් බොහෝ දෑ ලබා ගැනීමට පිවිසෙන්න www.alevelapi.com වෙත.

www.AlevelApi.com



සියලු ම හිමිකම් ඇවිරිණි/முழுப் பதிப்புரிமையுடையது/All Rights Reserved]

නව නිර්දේශය/புதிய பாடத்திட்டம்/New Syllabus

NEW

ශ්‍රී ලංකා විභාග දෙපාර්තමේන්තුව ශ්‍රී ලංකා විභාග දෙපාර්තමේන්තුව
Department of Examinations, Sri Lanka

අධ්‍යයන පොදු සහතික පත්‍ර (උසස් පෙළ) විභාගය, 2020
கல்விப் பொதுத் தராதரப் பத்திர (உயர் தர)ப் பரீட்சை, 2020
General Certificate of Education (Adv. Level) Examination, 2020

| | |
|---|---|
| ආර්ථික විද්‍යාව | I |
| பொருளியல் | I |
| Economics | I |

21 E I

පැය දෙකයි
இரண்டு மணித்தியாலம்
Two hours

**Instructions:**

- ✻ *Answer all the questions.*
- ✻ *Write your* ***Index Number*** *in the space provided in the answer sheet.*
- ✻ *Instructions are given on the back of the answer sheet. Follow those carefully.*
- ✻ *In each of the questions* 1 *to* 50, *pick one of the alternatives from* (1), (2), (3), (4), (5) *which is* ***correct or most appropriate*** *and* ***mark your response on the answer sheet with a cross*** (×) *in accordance* ***with the instructions given in the back of the answer sheet.***

1. A free good has which one of the following characteristics?
   (1) It has some degree of scarcity in relation to demand.
   (2) It has no opportunity cost in supply.
   (3) Its consumption or production does not generate any externality.
   (4) It is supplied by the government free of charge.
   (5) It is supplied by the government itself because its consumption is socially desirable.

2. Economists refer the term 'capital' exclusively to
   (1) human-made goods which are used to produce other goods and services.
   (2) money used to purchase capital in the form of stocks and bonds.
   (3) savings accumulated by households to purchase capital.
   (4) money used by an entrepreneur to purchase capital.
   (5) real estate, forests, metals, and mineral resources.

3. What is meant by the statement that every economic system faces the problem of scarcity?
   (1) The quantities available of some resources in the society exceed the demand for them.
   (2) Mineral deposits are available only in finite amounts in a country.
   (3) Countries have failed to achieve full employment due to scarcity of resources.
   (4) The productive resources are not sufficient to satisfy all wants of the society.
   (5) Economic systems have cyclically recurring expansionary phases during which scarcity of resources occurs.

4. The allocatively efficient point on a production possibilities curve is achieved where
   (1) the minimum quantity of inputs are used to produce each good.
   (2) each good is produced at a level where marginal benefits equal marginal cost.
   (3) large amounts of capital goods are produced relative to consumer goods.
   (4) large amounts of consumer goods are produced relative to capital goods.
   (5) each good is produced at a level where price of the good exceeds marginal benefits.

5. The Law of Demand states that
   (1) a decrease in the price of a good, shifts the demand curve of the good leftward.
   (2) when other things remain the same, the higher the price of a good, the lower is the quantity demanded.
   (3) when other things remain the same, the higher the price of a good, the higher is the quantity demanded.
   (4) a decrease in the price of a good, shifts the demand curve of the good rightward.
   (5) an increase in the price of a good, shifts the demand curve of the good leftward.



Alevel Apis උසස් පෙළ විද්‍යා/ගණිත/කලා/වාණිජ හා තාක්ෂණ විෂය ධාරාවන්ට අදාළ සියලුම ප්‍රශ්න පත්‍ර/සටහන් හා තවත් බොහෝ දේ ලබා ගැනීමට පිවිසෙන්න www.alevelapi.com වෙත.

6. The quantity demanded of a good is
(1) the amount of a good that consumers plan to purchase at a particular price.
(2) independent of the price of the good and the level of income of the consumer.
(3) independent of consumers' buying plans.
(4) always equal to the equilibrium quantity.
(5) the amounts that the consumers are willing to buy at different prices.

7. Which of the following causes an increase in the quantity supplied of good X?
(1) An increase in the price of good X while other things remain unchanged
(2) An increase in the price of good Y which is a complement in the production of good X
(3) An improvement in the technology for producing good X
(4) A reduction in the price of resources used to produce good X
(5) A decrease in the demand for a substitute for good X

8. In a competitive market if both demand and supply increase, what will be the effect on the equilibriu price and quantity?
(1) The price will definitely increase but the quantity could either increase, decrease, or rema the same.
(2) The quantity will definitely increase but the price could either rise, fall or remain the same
(3) The quantity will definitely decrease but the price could either rise, fall or remain the same
(4) The price will definitely decrease but the quantity could either increase, decrease, or rema the same.
(5) Both the price and the quantity will definitely increase.

9. Suppose the market demand function for a certain consumer good is represented by $Q_D = 500 - 5P$. Wh is the arc price elasticity of the demand of this good over the price range of Rs. 20 and Rs. 30?
(1) – 0.25 (2) – 0.33 (3) – 0.43 (4) – 0.52 (5) – 0.66

10. Demonstrating their generosity at a time of national distress, vegetable farmers in a country deci to sell as much vegetables as consumers want to buy, at half the competitive market equilibriu price. As a result of this action
(1) economic surplus will fall.
(2) economic surplus will increase.
(3) economic surplus will not change.
(4) consumer surplus will fall.
(5) producer surplus will increase.

11. If the income effect of a price change is negative but the substitution effect dominates, then t good is
(1) a Giffen good.
(2) a normal good.
(3) an essential good.
(4) an inferior good.
(5) a luxury good.

12. When a price ceiling is imposed in a market,
(1) a persistent shortage results.
(2) a persistent surplus results.
(3) sellers of the product are made better off.
(4) no one is made better off.
(5) quantity supplied is greater than the quantity demanded.

13. Which one of the following is **not** a problem associated with the imposition of effective pri floors on farm products?
(1) chronic excess supply in the market
(2) the transfer of income from non-agricultural taxpayers to farmers
(3) large subsidies paid by the government
(4) a higher price for consumers
(5) the emergence of black markets for agricultural commodities



උසස් පෙළ විද්‍යා/ගණිත/කලා/වාණිජ හා තාක්ෂණ විෂය ධාරාවන්ට අදාළ සියලුම ප්‍රශ්න පත්‍ර/සටහන් හා තවත් බොහෝ දේ ලබා ගැනීමට පිවිසෙන්න www.alevelapi.com වෙත.

14. A market demand function for a product sold in a competitive market is given by the equation $Q_D = 180 - 2P$. If the equilibrium price in the market is Rs. 65, the value of the consumer surplus is
(1) Rs. 625. (2) Rs. 1 000. (3) Rs. 1 250. (4) Rs. 3 250. (5) Rs. 4 500.

15. Increasing returns to scale reflect a technological characteristic under which the percentage increase in a firm's output
(1) exceeds the percentage increase in its inputs.
(2) is less than the percentage increase in its inputs.
(3) is equal to the percentage increase in its inputs.
(4) exceeds the percentage increase in its fixed inputs.
(5) is less than the percentage increase in its fixed inputs.

16. Which of the following statements is correct?
(1) Economic profit = accounting profit
(2) Economic cost = explicit cost + implicit cost
(3) Economic cost = explicit cost – implicit cost
(4) Opportunity cost = economic profit
(5) Accounting cost = implicit cost

17. Which of the following is necessarily a characteristic of an oligopolistic market?
(1) Free entry into and exit from the market
(2) A few large scale producers
(3) Only one producer of a good with no close substitutes
(4) A homogeneous product
(5) No opportunities for collusion between firms

18. If a firm faces a perfectly elastic demand curve for its product, then
(1) that firm is not a price taker.
(2) firm is able to lower its price to increase sales.
(3) firm is able to raise its price to increase total revenue.
(4) firm's marginal revenue curve is horizontal at the market price.
(5) firm will always make zero economic profits.

19. The difference between Gross Value of Output (GVO) and Gross Value Added (GVA) is
(1) Consumption of fixed capital.
(2) Intermediate consumption.
(3) Net indirect taxes.
(4) Net primary income.
(5) Primary inputs.

20. In national accounting, which one of the following activities is excluded from the production boundary?
(1) Services of unlicensed medical practitioners
(2) Services of owner-occupied dwellings
(3) Goods produced by households
(4) Provision of education free of charge by the government
(5) Caring for sick and old people by the members of the household

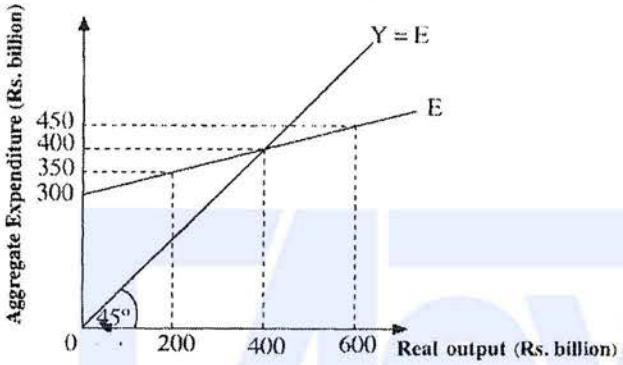
21. The main components of primary income are
(1) compensation of employees, gross operating surplus and net taxes on production and imports.
(2) compensation of employees, operating surplus and other net taxes on production.
(3) compensation of employees, gross operating surplus and mixed incomes.
(4) compensation of employees, operating surplus and consumption of fixed capital.
(5) compensation of employees, gross operating surplus and other net taxes on production.



උසස් පෙළ විද්‍යා/ගණිත/කලා/වාණිජ හා තාක්ෂණ විෂය ධාරාවන්ට අදාළ සියලුම ප්‍රශ්න පත්‍ර/සටහන් හා තවත් බොහෝ දේ ලබා ගැනීමට පිවිසෙන්න www.alevelapi.com වෙත.

22. If personal income exceeded national income in a particular year, it can be concluded that
(1) the amount of transfer payments exceeded the sum of social security contributions, corporate income taxes and undistributed corporate profits.
(2) the sum of social security contributions, corporate income taxes and undistributed corporate profits exceeded transfer payments.
(3) the sum of social security contributions and corporate income taxes exceeded indirect taxes.
(4) the amount of transfer payments exceeded the sum of social security contributions, corporate income taxes and indirect taxes.
(5) the sum of corporate income taxes and indirect taxes exceeded the sum of transfer payments and undistributed profits.

23. The diagram below displays an aggregate expenditure (E) function for a hypothetical economy.




At the real output level of Rs. 600 billion, there is
(1) an accumulation of unplanned stocks of Rs. 200 billion.
(2) a reduction of unplanned stocks of Rs. 200 billion.
(3) an accumulation of unplanned stocks of Rs. 150 billion.
(4) a reduction of unplanned stocks of Rs. 150 billion.
(5) a macroeconomic equilibrium in the economy.

24. In an economy with a positive output gap
(1) there is an unutilized productive capacity.
(2) there is cyclical unemployment.
(3) actual output is less than potential output.
(4) there is a slowdown in the pace of economic activities.
(5) demand-pull inflationary pressures exist.

25. If the aggregate savings function for an economy is $S = -200 + 0.25Y$, then the aggregate consumption function of this economy is
(1) $C = -200 + 0.75Y$ (2) $C = 200 - 0.25Y$
(3) $C = 200 + 0.25Y$ (4) $C = -200 - 0.75Y$
(5) $C = 200 + 0.75Y$

26. Suppose that in a hypothetical economy, real GDP equals Rs. 80 trillion, nominal GDP equals Rs. 240 trillion, and the general price level equals 3. If the money supply in this economy is Rs. 30 trillion, then the velocity of circulation of money is
(1) 8 (2) 10 (3) 30 (4) 80 (5) 90

27. Assume that one of the commercial banks in the banking system has excess reserves of Rs. 400 million and the statutory reserve ratio is 20%. Meanwhile, a customer of this bank deposits Rs. 25 million in his current account and the bank lends Rs. 120 million to another customer. How much additional lending can be granted by this bank now?
(1) Rs. 2 125 million (2) Rs. 2 005 million (3) Rs. 425 million
(4) Rs. 305 million (5) Rs. 300 million



උසස් පෙළ විද්‍යා/ගණිත/කලා/වාණිජ හා තාක්ෂණ විෂය ධාරාවන්ට අදාළ සියලුම ප්‍රශ්න පත්‍ර/සටහන් හා තවත් බොහෝ දේ ලබා ගැනීමට පිවිසෙන්න www.alevelapi.com වෙත.

28. What are the main objectives of the Central Bank of Sri Lanka in implementing monetary policy at present?
(1) Price stability and financial system stability
(2) Price stability and full employment
(3) Price stability and sustainable development
(4) Full employment and more equal distribution of income
(5) Price stability and reduction in the burden of public debt

29. Suppose the statutory reserve requirement is 10% and the Central Bank conducts an open market purchases of Rs. 300 million from the commercial banks. What is the maximum possible change in the money supply resulting from this purchase?
(1) Increase of Rs. 300 million
(2) Decrease of Rs. 300 million
(3) Increase of Rs. 3 000 million
(4) Decrease of Rs. 3 000 million
(5) Decrease of Rs. 2 700 million

30. Monetary policy affects aggregate demand through changes in
(1) direct and indirect tax receipts.
(2) share prices.
(3) export demand.
(4) consumption and investment spending.
(5) government spending.

31. When an externality exists in a free market,
(1) the equilibrium price is determined at an artificially high level.
(2) the equilibrium price is determined at an artificially low level.
(3) market cannot reach equilibrium.
(4) market equilibrium does not ensure socially optimum resource allocation.
(5) the consumers of a product incur extra costs in terms of maintenance and insurance.

32. Market fails to produce public goods because
(1) there is no demand for such goods.
(2) it is impossible for the producer to charge a price from the consumers of such product.
(3) such products usually entail large external costs in production and generate external benefits in consumption.
(4) their production leads to increase income inequality.
(5) private firms generally have a higher production cost than the public sector.

33. The main components of the recurrent expenditure of the government of Sri Lanka are
(1) interest payments, acquisition of real assets, salaries and wages and transfers to households.
(2) interest payments, salaries and wages, capital transfers to public corporations and pensions.
(3) interest payments, salaries and wages, current transfers to households and current transfers to public corporations.
(4) interest payments, salaries and wages, amortisation payments and current transfers to households.
(5) interest payments, salaries and wages, acquisition of financial assets and fertilizer subsidy.

34. A regressive income tax is one where the poor
(1) have a lower percentage of their income taxed than the rich.
(2) pay a larger rupee amount in taxes than the rich.
(3) pay a tax that varies proportionately with their income.
(4) have a higher percentage of their income taxed than the rich.
(5) are able to use tax revenue to purchase essential goods.

35. The prominent source of revenue of the central government of Sri Lanka at present is
(1) taxes on income.
(2) taxes on production and expenditure.
(3) profits, dividends and interest.
(4) gross receipts of trading enterprises.
(5) lottery revenues.



උසස් පෙළ විද්‍යා/ගණිත/කලා/වාණිජ හා තාක්ෂණ විෂය ධාරාවන්ට අදාළ සියලුම ප්‍රශ්න පත්‍ර/සටහන් හා තවත් බොහෝ දේ ලබා ගැනීමට පිවිසෙන්න www.alevelapi.com වෙත.

36. According to the principle of comparative advantage, worldwide output and consumption levels will be highest when goods are produced in countries where which of the following is true?
(1) Opportunity costs are lowest
(2) Absolute advantages are highest
(3) The balance of trade is in a surplus
(4) The exchange rate is falling
(5) Transportation costs are almost zero

37. In country A, it takes 5 labour hours to produce one unit of cloth and 10 labour hours to produce one unit of rice. In country B, it takes 7 labour hours to produce one unit of cloth and 21 labour hours to produce one unit of rice. If the two countries have decided to specialize according to each country's comparative advantage, at what exchange rate would the country A be willing to trade with country B?
(1) More than 2 units of cloth per unit of rice
(2) More than 2 units of rice per unit of cloth
(3) More than 3 units of cloth per unit of rice
(4) More than 3 units of rice per unit of cloth
(5) More than 0.5 units of rice per unit of cloth

38. Which **two** of the following arguments are most likely to be used to justify protectionism?
A - To protect high cost domestic industries
B - To protect strategically important industries
C - To protect infant industries
D - To protect environmental standards
E - To maximize government tax revenue
(1) A and D
(2) B and C
(3) B and D
(4) C and D
(5) D and E

39. In which account of the Balance of Payments would an inflow of foreign direct investment be recorded?
(1) Primary income account
(2) Secondary income account
(3) Capital account
(4) Current account
(5) Financial account

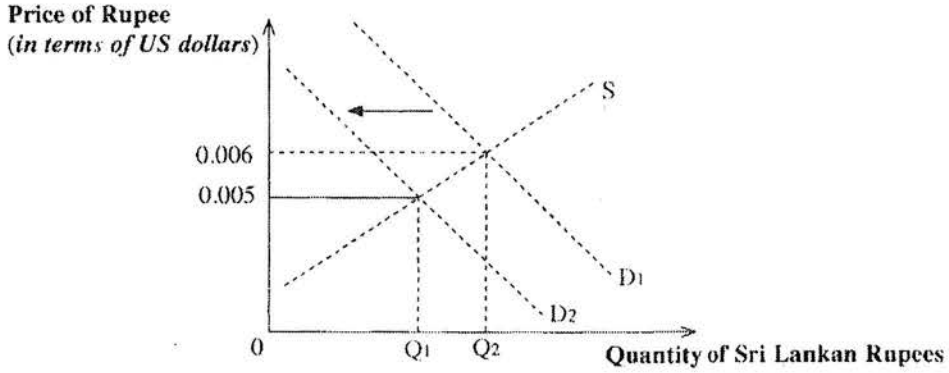
40. Floating exchange rates refer to
(1) the exchange rates failing to adjust when distabilized by shocks to the foreign exchange market.
(2) exchange rates maintained by the government through the interventions in the exchange market.
(3) exchange rates determined by the demand for and supply of a country's currency.
(4) a situation where the excess demand for a country's currency causes its devaluation.
(5) a situation where the excess supply of a country's currency causes its appreciation.

41. The solution proposed by the International Monetary Fund (IMF) which was established to help countries that have Balance of Payments and foreign exchange reserve problems was
(1) the revaluation of the country's currency.
(2) lending the country foreign exchange reserves through re-purchase and reverse re-purchase agreements.
(3) helping to re-establish the country's exchange rate at a higher level.
(4) purchasing the country's assets abroad and converting them to foreign currencies.
(5) helping the country to find new markets for exports.



උසස් පෙළ විද්‍යා/ගණිත/කලා/වාණිජ හා තාක්ෂණ විෂය ධාරාවන්ට අදාළ සියලුම ප්‍රශ්න පත්‍ර/සටහන් හා තවත් බොහෝ දෑ ලබා ගැනීමට පිවිසෙන්න www.alevelapi.com වෙත.

**42**. The diagram below shows the value of Sri Lankan Rupee in terms of US dollars.




What will be the effect of the shift in demand for Sri Lankan Rupees from D1 to D2?

(1) Sri Lankan exports to the USA will be more expensive.
(2) It will be cheaper for the Sri Lankan tourists to visit USA.
(3) Sri Lankan Treasury Bonds will be cheaper for the US investors.
(4) Sri Lankan Treasury Bonds will be more expensive for the US investors.
(5) The cost of imports from USA will decrease.

**43**. Economic development means

(1) Economic growth with Balance of Payment surplus.
(2) Economic growth plus structural and qualitative changes.
(3) Improvement in the living standards of the urban population.
(4) Sustainable increases in Gross National Income (GNI).
(5) Equitable income distribution along with a reduction in the poverty level.

**44**. Sustainable Development implies

(1) development that provides for economic and social viability for the present even if that results in environmental degradation for the future.
(2) development that provides environmental sustainability for the present even if that results in economic and social degradation for the future generations.
(3) development that meets the needs of the present without compromising the ability of future generations to meet their own needs.
(4) full exploitation of natural resources with sustained increase in real GDP.
(5) development that meets the needs of the future generations even if the present society's needs go unmet.

**45**. The 'absolute' poverty line is drawn to show

(1) the most extreme level of poverty that is found in a society.
(2) the estimated minimum level of income needed for subsistence.
(3) the number of households that are poor relative to the norms and values of their culture.
(4) the areas of a city in which poor is concentrated.
(5) the average monthly income of the lowest 10% of the population.

**46**. The Lorenz Curve is used to measure which of the following?

(1) The ratio of income to wealth in different countries
(2) The ratio of public goods to private goods in different countries
(3) The ratio of income inequality to income equality in different countries
(4) The ratio of the highest to lowest percentage of income receivers of a country
(5) The ratio of non-working age population to the working-age population



උසස් පෙළ විද්‍යා/ගණිත/කලා/වාණිජ හා තාක්ෂණ විෂය ධාරාවන්ට අදාළ සියලුම ප්‍රශ්න පත්‍ර/සටහන් හා තවත් බොහෝ දේ ලබා ගැනීමට පිවිසෙන්න www.alevelapi.com වෙත.

47. Under which type of unemployment does the marginal productivity of worker is zero or closer to zero?
(1) Disguised unemployment
(2) Involuntary unemployment
(3) Seasonal unemployment
(4) Structural unemployment
(5) Frictional unemployment

48. The World Bank's 'Ease of Doing Business' indicators
(1) rank countries by the size of their foreign direct investment as host countries.
(2) rank countries by the size of their foreign direct investment as source countries.
(3) rank the industries in which countries have comparative advantage.
(4) measure the ease of starting and running a business in many countries.
(5) are a hindrance to economic development because they deter investment in poor countries.

49. Which group correctly indicates the sectoral composition of Sri Lanka's GDP in 2018?

| | Agriculture, Forestry and Fishing | Industries | Services |
|---|---|---|---|
| (1) | 7.0 | 26.1 | 57.7 |
| (2) | 7.6 | 25.8 | 60.4 |
| (3) | 8.2 | 24.0 | 60.1 |
| (4) | 8.9 | 27.8 | 64.4 |
| (5) | 10.2 | 24.5 | 60.2 |

50. The top four countries contributed to FDI inflows in Sri Lanka in the year 2018 were
(1) China, Hong Kong, India and Malaysia.
(2) China, Singapore, Japan and Switzerland.
(3) China, India, Japan and Norway.
(4) China, Canada, Italy and USA.
(5) China, India, Malaysia and Germany.

* * *

www.alevelapi.com



උසස් පෙළ විද්‍යා/ගණිත/කලා/වාණිජ හා තාක්ෂණ විෂය ධාරාවන්ට අදාළ සියලුම ප්‍රශ්න පත්‍ර/සටහන් හා තවත් බොහෝ දෑ ලබා ගැනීමට පිවිසෙන්න www.alevelapi.com වෙත.

www.AlevelApi.com



ශ්‍රී ලංකා විභාග දෙපාර්තමේන්තුව
இலங்கைப் பரீட்சைத் திணைக்களம்

අ.පො.ස. (උ.පෙළ) විභාගය/ க.பொ.த. (உயர் தர)ப் பரீட்சை - 2020

නව නිර්දේශය/ புதிய பாடத்திட்டம

විෂය අංකය
பாட இலக்கம் **21**

විෂයය
பாடம் **ECONOMICS**

ලකුණු දීමේ පටිපාටිය/புள்ளி வழங்கும் திட்டம்

I පත්‍රය/பத்திரம் I

| ප්‍රශ්න අංකය வினா இல. | පිළිතුරු අංකය விடை இல. | ප්‍රශ්න අංකය வினா இல. | පිළිතුරු අංකය விடை இல. | ප්‍රශ්න අංකය வினா இல. | පිළිතුරු අංකය விடை இல. | ප්‍රශ්න අංකය வினா இல. | පිළිතුරු අංකය விடை இல. | ප්‍රශ්න අංකය வினா இல. | පිළිතුරු අංකය விடை இல. |
|---|---|---|---|---|---|---|---|---|---|
| 01. | 2 | 11. | 4 | 21. | 1 | 31. | 4 | 41. | 2 |
| 02. | 1 | 12. | 1 | 22. | 1 | 32. | 2 | 42. | 3 |
| 03. | 4 | 13. | 5 | 23. | 3 | 33. | 3 | 43. | 2 |
| 04. | 2 | 14. | 1 | 24. | 5 | 34. | 4 | 44. | 3 |
| 05. | 2 | 15. | 1 | 25. | 5 | 35. | 2 | 45. | 2 |
| 06. | 1 | 16. | 2 | 26. | 1 | 36. | 1 | 46. | 3 |
| 07. | 1 | 17. | 2 | 27. | 5 | 37. | 1 | 47. | 1 |
| 08. | 2 | 18. | 4 | 28. | 1 | 38. | 2 | 48. | 4 |
| 09. | 2 | 19. | 2 | 29. | 3 | 39. | 5 | 49. | 1 |
| 10. | 1 | 20. | 5 | 30. | 4 | 40. | 3 | 50. | 1 |

✪ විශේෂ උපදෙස්/ விசேட அறிவுறுத்தல் :

එක් පිළිතුරකට/ ஒரு சரியான விடைக்கு 02 ලකුණු බැගින්/புள்ளி வீதம்

මුළු ලකුණු/மொத்தப் புள்ளிகள் 2 × 50 = 100



උසස් පෙළ විද්‍යා/ගණිත/කලා/වාණිජ හා තාක්ෂණ විෂය ධාරාවන්ට අදාළ සියලුම ප්‍රශ්න පත්‍ර/සටහන් හා තවත් බොහෝ දෑ ලබා ගැනීමට පිවිසෙන්න www.alevelapi.com වෙත.

සියලු ම හිමිකම් ඇවිරිණි/முழுப் பதிப்புரிமையுடையது/All Rights Reserved

නව නිර්දේශය/புதிய பாடத்திட்டம்/New Syllabus

NEW

ශ්‍රී ලංකා විභාග දෙපාර්තමේන්තුව
இலங்கைப் பரீட்சைத் திணைக்களம்
Department of Examinations, Sri Lanka

අධ්‍යයන පොදු සහතික පත්‍ර (උසස් පෙළ) විභාගය, 2020
கல்விப் பொதுத் தராதரப் பத்திர (உயர் தர)ப் பரீட்சை, 2020
General Certificate of Education (Adv. Level) Examination, 2020

| | |
|---|---|
| ආර්ථික විද්‍යාව II<br>பொருளியல் II<br>**Economics II** | **21 E II** |

පැය තුනයි
மூன்று மணித்தியாலம்
***Three hours***

අමතර කියවීම් කාලය - මිනිත්තු 10 යි
மேலதிக வாசிப்பு நேரம் - 10 நிமிடங்கள்
**Additional Reading Time - 10 minutes**

**Use additional reading time to go through the question paper, select the questions you will answer and decide which of them you will prioritise.**

**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.)*

**01**

1. (i) What is meant by scarcity? Explain the problem of scarcity using a production possibilities curve. (03 *marks*)

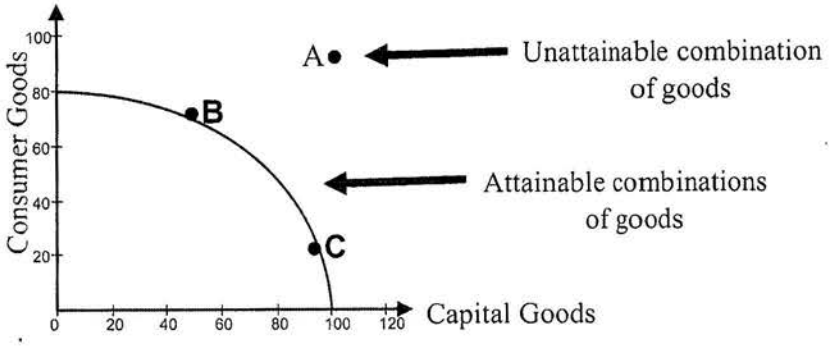
   (ii) Why productive inefficiency and allocative inefficiency are considered wasteful in resource utilization? (04 *marks*)

   (iii) What are the main functions of an economic system? (03 *marks*)

   (iv) Explain what happens to a country's production capacity due to a pandemic such as Covid - 19 using a production possibilities curve. (05 *marks*)

   (v) Explain why the division of labour causes increases in the level of production in an economy. (05 *marks*)

1. (i)– Scarcity is the universal condition that human wants always exceed the resources available to satisfy them. It is essentially a problem of infinite wants and limited resources. **(01 mark)**






Alevel Lapi උසස් පෙළ විද්‍යා/ගණිත/කලා/වාණිජ හා තාක්ෂණ විෂය ධාරාවන්ට අදාළ සියලුම ප්‍රශ්න පත්‍ර/සටහන් හා තවත් බොහෝ දේ ලබා ගැනීමට පිවිසෙන්න www.alevelapi.com වෙත.

- Production possibilities curve shows all combinations of goods and services that are just attainable when all resources are fully and efficiently employed. Production possibilities curve separates attainable combinations of goods and services such as **B**,and **C** from unattainable combinations such as point **A.** A situation in which human wants exceed the attainable combinations of goods and services is called scarcity. Therefo re, scarcity can be illustrated by a production possibilities curve (PPC) by drawing a point outside the PPC representing a combination of goods which cannot be attained.

**(01 mark for the correct diagram and 01 mark for the correct explanation; Total marks 02)**

(ii) – **Productive inefficiency** occurs when a firm is not producing its output in the least costly way. It fails to obtain maximum output per unit of input or a unit of output per minimum amount of inputs. As a result it fails to produce its output at the lowest unit cost. **(01 mark)**

- When you take the economy as a whole, it is unable to get the maximum output from given amount of resources. This means that the economy cannot stay on the production possibilities frontier with full employment and full production. This forces the economy to operate below the production possibilities frontier resulting underutilization or unemployment of resources. **(01 mark)**

- **Allocative inefficiency** occurs when the economy fails to allocate scarce resources to produce goods and services most wanted by society. **(01 mark)**

When the value that consumers place on a product (i.e. the price they are willing and able to pay) does not equal the cost of the resources used up in production, resources are wasted resulting over-production or un der-production. **(01 mark)**

www.alevelapi.com

**(iii)** Every economic system, irrespective of its nature, must solve three fundamental questions regarding the functioning of an economy. The three main functions are the following:

- Determining what goods and services are to be produced. This is called **allocation function**.
- Determining how these goods and services produced. This is called **production function**
- Determining for whom are these goods and services produced. This is called **distribution function.**

**(01 mark for each function and total marks 03)**

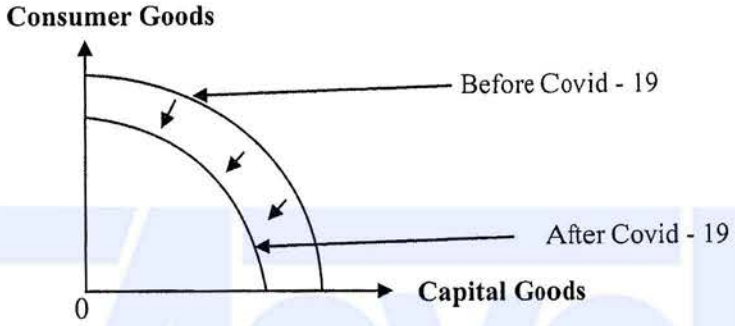


උසස් පෙළ විද්‍යා/ගණිත/කලා/වාණිජ හා තාක්ෂණ විෂය ධාරාවන්ට අදාළ සියලුම ප්‍රශ්න පත්‍ර/සටහන් හා තවත් බොහෝ දේ ලබා ගැනීමට පිවිසෙන්න www.alevelapi.com වෙත.

**(iv)** – What happens to a country's production capacity due to a pandemic disease such as Covid-19 d epends on its impact on the country's resource endowment and its productivity. **(01 mark)**

- If the pandemic makes a significant impact on the size of the labour force and the productivity of labour, then it is likely to reduce the production capacity of the economy and causing the PPC to shift downward in the short run. **(01 mark)**

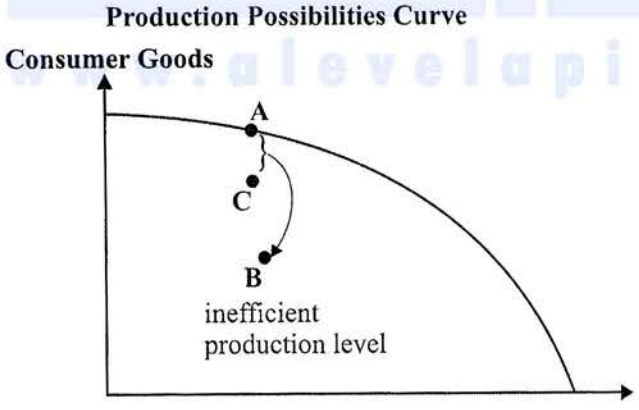
- PPC would shift downward to indicate the decrease in potential output.




**(01 mark for the correct diagram)**

- If the pandemic does not make a significant impact on the size of the labour force and its productivity it is unlikely to reduce the production capacity of the economy. In this situation, although the pandemic may not influence the productive capacity (potential output) of the economy, the rate of utilization of the production capacity can be affected due to public reaction do the disease such as lockdowns, supply chain and market disruptions. **(01 mark)**

- In this situation, PPC does not shift downwards, but the actual production level of the economy will be contracted as shown below.




**(01 mark for the correct diagram)**



උසස් පෙළ විද්‍යා/ගණිත/කලා/වාණිජ හා තාක්ෂණ විෂය ධාරාවන්ට අදාළ සියලුම ප්‍රශ්න පත්‍ර/සටහන් හා තවත් බොහෝ දේ ලබා ගැනීමට පිවිසෙන්න www.alevelapi.com වෙත.

(v) (a) **Increase in productivity:** With the division of labour the productive capacity of the individuals is immensely increased as it leads to specialization. This point can be illustrated by the famous example of pin making given by Adam Smith.

(b) **The right man in the right place**: People have different skills, talents and interests, so they will be better at some jobs than at others. The work under division of labour is allotted according to the ability and capacity of the individual worker. If people specialize in the production of what they do best, they will be more productive than if they produce a combination of things, some of which they are good at and some of which they are not.

(c) **Dexterity and skills:** The worker becomes highly skilled and acquires high degree of dexterity because of the repeated performance of the same operation. Workers who specialize in certain tasks often learn to produce more quickly and with high quality

(d) **Inventions are facilitated**: The division of labour promotes the development of new ideas and better techniques of doing the work. It is due to the fact that when the worker is performing the same operation over and over again, he can think of doing that process in a better and improved manner. Thus division of labour results in inventions of new machinery and better tools.

(e) **Saving in time**: Under division of labour, a worker performs the part of a whole process and therefore he needs to learn only that much. Long periods of training are, therefore, rendered unnecessary. This saves great time and money. Further, as the worker remains employed on the same process, he does nor waste his time in moving from one process to another.

www.alevelapi.com

(f) **Promotes large scale production:** By breaking up the production of a commodity into small and simple operations, the division of labour encourages the use of machinery and its introduction. Machines can be economically used only when they are fully used, that is, when their productive capacity is fully utilized. Thus division of labour involves large scale production.

**(01 mark each for any advantage; Total marks 05)**



උසස් පෙළ විද්‍යා/ගණිත/කලා/වාණිජ හා තාක්ෂණ විෂය ධාරාවන්ට අදාළ සියලුම ප්‍රශ්න පත්‍ර/සටහන් හා තවත් බොහෝ දෑ ලබා ගැනීමට පිවිසෙන්න www.alevelapi.com වෙත.

**02**

2. (i) What is the difference between the demand and the quantity demanded of a product? Show the difference on a diagram. (04 *marks*)

(ii) Define normal, inferior, and luxury goods using the concept of income elasticity of demand. (03 *marks*)

(iii) Name **three** non-price rationing methods used in the allocation of goods in an economy. (03 *marks*)

(iv) In a small town, the market for bread is represented by the following demand and supply equations.

$Q_D = 110 - P$ (Demand) $Q_S = -40 + 2P$ (Supply)

(a) Find the equilibrium price and quantity in this market. (02 *marks*)

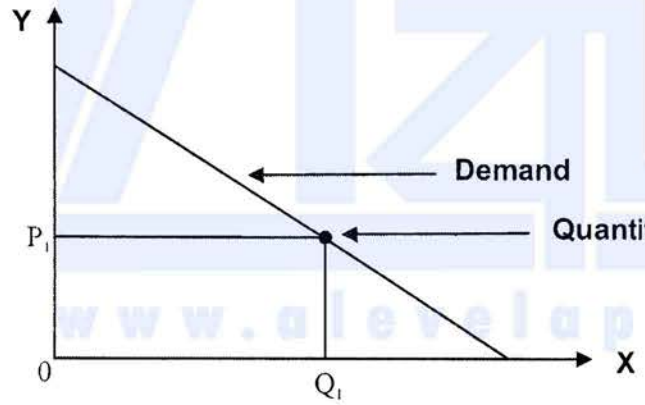
(b) Calculate the total surplus at the equilibrium. (04 *marks*)

(c) Calculate the price elasticity of demand for bread at the price of Rs. 60. (04 *marks*)

**02.** **(i)** – Demand is a relationship which shows the various amounts of a product consumers are willing and able to purchase at each price in a series of possible prices during a specified period of time while all other things remain unchanged. **(01 mark)**

- The quantity demanded of a good or service is the amount that consumers plan to buy during a specified time period at a particular price all other things remain unchanged. **(01 mark)**

- The diagram below shows the difference between demand and quantity demanded.




**(01 for the correct display of quantity demanded in the diagram; 01 for the correct display of demand in the diagram; Total marks 02)**

**(ii)** – Goods and services with positive income elasticity coefficient are normal goods. **(01 mark)**

- Goods and services with negative income elasticity coefficient are inferior goods. **(01 mark)**

- Goods and services with income elasticity coefficient greater than one (1) are luxury goods. **(01 mark)**



උසස් පෙළ විද්‍යා/ගණිත/කලා/වාණිජ හා තාක්ෂණ විෂය ධාරාවන්ට අදාළ සියලුම ප්‍රශ්න පත්‍ර/සටහන් හා තවත් බොහෝ දේ ලබා ගැනීමට පිවිසෙන්න www.alevelapi.com වෙත.

(iii) – **A queue** is a waiting line that solves the rationing problem on a 'first-come, first-served basis.

- **Coupons**: in this system, the government distributes coupons that must be presented along with money in order to buy a product.

- Arranging a ballot for **ticket allocations**.

- **Favoured customers**: Those who receive special treatment from dealers during situations of excess demand.

- **Black markets**: maximum price limit is illegally broken.

- **Bundling:** low priced items are bundled together with high priced items.

**(01 mark each for any 3 methods; total marks 03)**

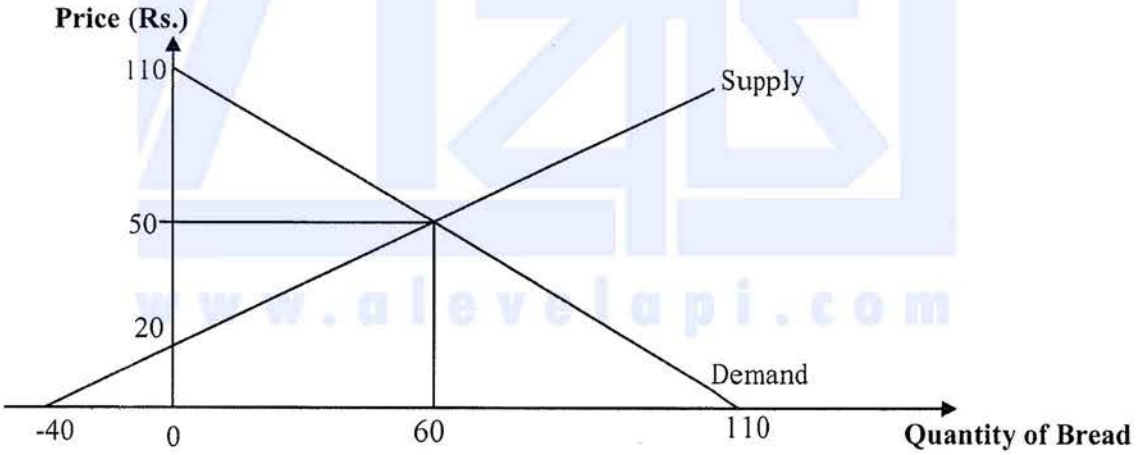
(iv) (a) $Q_D = Q_S$

$110 - P = -40 + 2P$; $2P + P = 110 + 40$

$-3P = 150$; $P = 50$ **(01 mark)**

$Q = 110 - 50 = 60$ **(01 mark)**

(b) To calculate the total surplus, we can draw the demand – supply diagram as shown below:




Total surplus = Consumer surplus + Producer surplus

Consumer surplus = $\{(110 - 50) \times 60\} \div 2 = 3600 \div 2 = 1800$ **(01 mark)**

Producer surplus = $\{(50 - 20) \times 60\} \div 2 = 1800 \div 2 = 900$ **(01 mark)**

Total surplus = $1800 + 900 = 2700$ **(01 mark)**

**(01 mark for the correct diagram; Total marks 04)**

Alternative answer :

Total surplus = $\{(110 - 20) \times 60\} \div 2 = (90 \times 60) \div 2 = 5400 \div 2 = 2700$

**(01 mark for the correct diagram; 03 marks for the correct calculation; Total marks 04)**



උසස් පෙළ විද්‍යා/ගණිත/කලා/වාණිජ හා තාක්ෂණ විෂය ධාරාවන්ට අදාළ සියලුම ප්‍රශ්න පත්‍ර/සටහන් හා තවත් බොහෝ දෑ ලබා ගැනීමට පිවිසෙන්න www.alevelapi.com වෙත.

**(c)** Price elacticity of demand for bread at the price of Rs. 60:
(Point elasticity formula should be used)

$$PED = \frac{\Delta Q}{\Delta P} \times \frac{P}{Q}$$

- $Q_D = 110 - P$; when $P = 60$, $Q_D = 110 - 60 = 50$ **(02 marks)**

- $\frac{\Delta Q}{\Delta P} = -1$; $\frac{P}{Q} = \frac{60}{50}$ ;

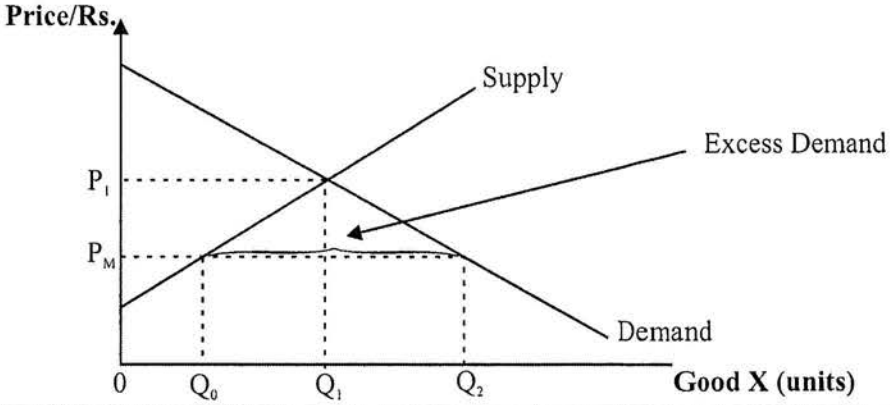
$PED = \frac{-1}{1} \times \frac{60}{50} = \frac{-60}{50} = \frac{-6}{5} = -1.2$ **(02 marks)**

| 03 | |
|---|---|
| 3. | (i) Distinguish between a 'price ceiling' and a 'price floor'. (04 *marks*) |
| | (ii) Why does a price ceiling create an excess demand for a good? Explain your answer using a diagram. (04 *marks*) |
| | (iii) Why does a producer subsidy create a deadweight loss? Illustrate your answer using an appropriate diagram? (04 *marks*) |
| | (iv) A competitive market has a demand function given by the equation $Q_D = 180 - 2P$, and a supply function given by the equation $Q_S = -15 + P$. Calculate the amount of deadweight loss that would result from a price floor imposed in this market at Rs. 72 per unit. (08 *marks*) |

**03.** **(i)** – Price ceiling is a regulation that makes it illegal to charge a price above a specified vlevel for a good or service . It is the maximum legal price a seller may charge for a product or service. **(02 marks)**

- Price floor is a regulation that makes it illegal to pay a price below a specified level. It is the minimum legal price fixed by the government for a product or service. **(02 marks)**

**(ii)** – The rationale for ceiling prices in specific products is that they purportedly enable consumers to obtain some 'essential' good or service they could not afford at the equilibrium price. If the price ceiling is set below the equilibrium price, there will be excess demand (so long as demand curve slopes downward and supply curve slopes upwards). **(02 marks)**






උසස් පෙළ විද්‍යා/ගණිත/කලා/වාණිජ හා තාක්ෂණ විෂය ධාරාවන්ට අදාළ සියලුම ප්‍රශ්න පත්‍ර/සටහන් හා තවත් බොහෝ දේ ලබා ගැනීමට පිවිසෙන්න www.alevelapi.com වෙත.

If a maximum price of $P_M$ is imposed by the government, suppliers will supply only $Q_1$, while consumers will want to buy $Q_2$. There will be excess demand equal to $Q_1$-$Q_2$.

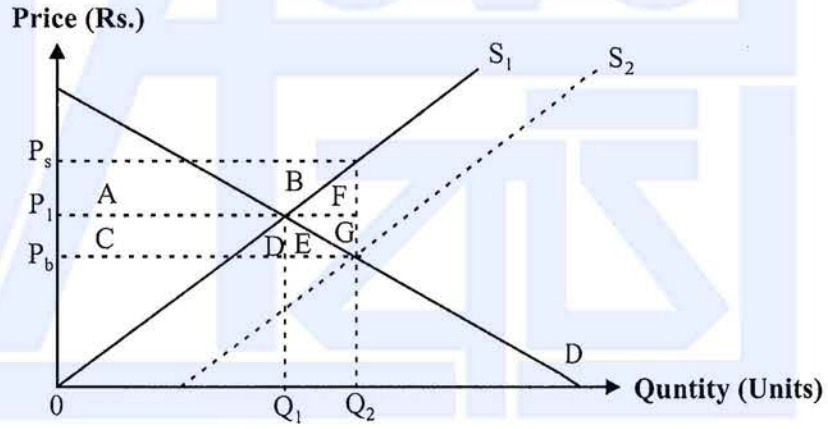
**(Correct diagram: 02 marks)**

**(iii)** –Like any other price regulation, producer subsidy also creates deadweight loss. It is true that both producers and consumers are better off after the subsidy. However, society as a whole pays more for the subsidy than the added benefit it gave to producers and consumers.

- In a market with a subsidy, more people purchase the good or service than would have in the competitive market. They only make a purchase because subsidy lowers the price. The amount they value the extra quantity is less than it costs the government to move them to buy it.

When the government subsidizes a product, it gives consumers a gift; Consumers value the gift (as measured by the consumer surplus) less than it costs the government to buy it (as measured by the revenue cost). **(02 marks)**

- Appropriate diagram to show the deadweight loss:




Increasing Consumer surplus after = C+D+E

Increasing Producer surplus after =A+B

Increasing Economics surplus after =A+B+C+D+E

Subsidy Cost to the Government =A+B+C+D+E+F+G

Deadweight Rate Lost = (A+B+C+D+E+F+G) - (A+B+C) = F+G

**(02 marks)**

**(iv) The amount of deadweight loss at the floor price of Rs. 72 per unit:**

- The tools of consumer surplus and producer surplus can be used to calculate the impact of floor price on the deadweight loss.
- Economic surplus before the introduction of Floor Price:



උසස් පෙළ විද්‍යා/ගණිත/කලා/වාණිජ හා තාක්ෂණ විෂය ධාරාවන්ට අදාළ සියලුම ප්‍රශ්න පත්‍ර/සටහන් හා තවත් බොහෝ දෑ ලබා ගැනීමට පිවිසෙන්න www.alevelapi.com වෙත.

Equilibrium price and quantity: QD = QS

$Q_D = 180 - 2P$; $Q_S = -15 + P$

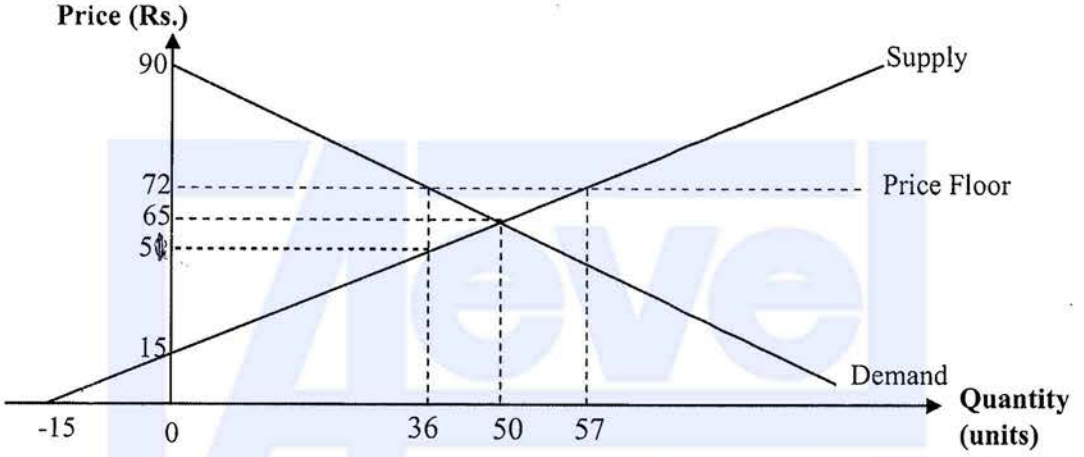
$180 - 2P = -15 + P$; $195 = 3P$; $P = 65$; $Q = 180 - 2(65) = 180 - 130 = 50$

This can be shown on the diagram below:

Consumer surplus = $\frac{(90 - 65) \times 50}{2} = \frac{1250}{2} = 625$ **(01 mark)**

Producer surplus = $\frac{(65 - 15) \times 50}{2} = \frac{2500}{2} = 1250$ **(01 mark)**

Economic Surplus = CS + PS = 625 + 1250 = 1875 (Before Floor Price)




**(Correct diagram 03 marks)**

Economic surplus after Floor Price: When a price floor of Rs. 72 per unit is put in place, producers supply 57 units, but consumers demand only 36 units, creating an excess supply of 21units. Both the consumer surplus and the producer surplus are reduced.

Consumer surplus after Price Floor = $\frac{(90 - 72) \times 36}{2} = \frac{18 \times 36}{2} = \frac{648}{2} = 324$ **(01 mark)**

Producer surplus after Price Floor = $\frac{(57 + 21) \times 36}{2} = \frac{2808}{2} = 1404$ **(01 mark)**

Economic surplus after Floor Price = 324 + 1404 = 1728

- Deadweight loss after the introduction of floor price = Economic surplus before the floor price - Economic surplus after the floor price = 1875 – 1728 = 147 **(01 mark)**

**Alternative answer:**

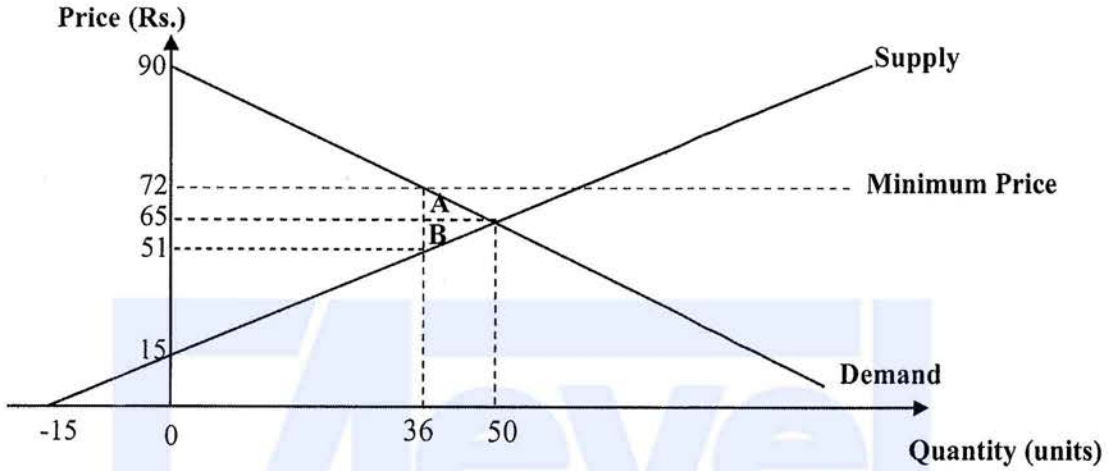
- When a minimum price is imposed on a competitive market, output will be contracted due to decrease in the quantity demanded. As shown in the diagram below, the quantity demanded decreases fro 50 units to 36 units resulting welfare loss to both



උසස් පෙළ විද්‍යා/ගණිත/කලා/වාණිජ හා තාක්ෂණ විෂය ධාරාවන්ට අදාළ සියලුම ප්‍රශ්න පත්‍ර/සටහන් හා තවත් බොහෝ දේ ලබා ගැනීමට පිවිසෙන්න www.alevelapi.com වෙත.

consumers and producers. The welfare triangles, **A** and **B** in the diagram which were earlier enjoyed by consumers and producers respectively are now lost due to contraction of output.

- By estimating the area of these two triangles, A and B we can estimate the amount of deadweight loss due to minimum price. **(02 marks)**




**(03 marks for the correct diagram)**

- Loss of consumer surplus: (Triangle A) = $\frac{(72 - 65)x(50 - 36)}{2} = \frac{7 \times 14}{2} = \frac{98}{2} = 49$

**(01 mark)**

- Loss of producer surplus: (Triangle B) = $\frac{(65 - 51)x(50 - 36)}{2} = \frac{14 \times 14}{2} = \frac{196}{2} = 98$

**(01 mark)**

- Total deadweight loss = A + B = 49 + 98 = 147 **(01 mark)**



උසස් පෙළ විද්‍යා/ගණිත/කලා/වාණිජ හා තාක්ෂණ විෂය ධාරාවන්ට අදාළ සියලුම ප්‍රශ්න පත්‍ර/සටහන් හා තවත් බොහෝ දෑ ලබා ගැනීමට පිවිසෙන්න www.alevelapi.com වෙත.

www.AlevelApi.com



**04**

4. (i) What is a production function? Distinguish between short run and long run production functions. (03 *marks*)

(ii) What are the reasons for economies of scale and diseconomies of scale? (04 *marks*)

(iii) What is the relationship between economic profit, producer surplus and fixed cost? (03 *marks*)

(iv) What is economic rent? Under what conditions a factor of production can earn an economic rent? (04 *marks*)

(v) How do you derive the industry's short run supply curve from the firms' short run supply curves in a perfectly competitive industry? Illustrate your answer with appropriate diagrams. (06 *marks*)

1. (i) – Production function is a technological relationship between the quantities of physical inputs and the quantities of output. It relates the maximum amount of output that can be obtained from a given quantity of inputs.

If we assume that there are only two inputs, labour L, and capital K, we can then write the production function as

$$Q = f(K, L)$$ **(01 mark)**

- Production requires not only capital and labour but also time. To account for the role of time in production process, we distinguish two different time periods. Short run refers to a period of time in which firms can adjust production by changing variable factors such as raw materials and labour but cannot change fixed factors such as capital. Thus, the short run production function comprises of two categories of inputs, variable inputs (V) and fixed inputs (F). It can be expressed as $Q = f(V, F)$. **(01 mark)**
- Long run is a period sufficiently long to make all inputs variable. Thus the long run production function comprises of inputs which are all variable inputs including capital. **(01 mark)**

**(ii) Reasons for economies of scale:**

- Increased specialization in the use of labour
- Managerial specialization
- Effective utilization of capital equipment
- Marketing economies of scale
- Financial economies of scale
- Risk bearing economies of scale

**(01 mark each for any two reasons; Total marks 02)**

**Reasons for diseconomies of scale:**

- Managerial problems in efficiently controlling and coordinating a firm's operations as it becomes a large-scale producer



උසස් පෙළ විද්‍යා/ගණිත/කලා/වාණිජ හා තාක්ෂණ විෂය ධාරාවන්ට අදාළ සියලුම ප්‍රශ්න පත්‍ර/සටහන් හා තවත් බොහෝ දේ ලබා ගැනීමට පිවිසෙන්න www.alevelapi.com වෙත.

- The advantages of buying in bulk may have disappeared once certain quantities are reached. At some point, available supplies of key inputs may be limited, pushing their costs up.

- I massive production facilities, workers may feel alienated from their jobs and have little commitment to productive efficiency.

- Transport costs per unit of output may increase as businesses spread further from head office.

- Industrial relations may deteriorate as firms reach giant size. Low morale and feeling of alienation, not to mention more industrial disputes, may lower productivity on the shop floor and thereby raising costs of production.

**(01 mark each for any two reasons; Total marks 02)**

**(iii)** – Economic profit is the excess of total revenue over total cost which comprises ofb o t h total variable cost and total fixed cost. **(01 mark)**

- Producer surplus is the excess of total revenue over total variable cost. Therefore, producer surplus is greater than the economic profit. **(01 mark)**

- Fixed cost is considered in the calculation of economic profit. Fixed cost is not considered in the calculation of producer surplus. Therefore, producer surplus exceeds economic profit by the amount of total fixed cost. **(01 mark)**

**(iv)** – Economic rent is the income received by the owner of a factor of production over and above the minimum amount required to induce that owner to offer the factor for use. **(01 mark)**

www.alevelapi.com

- The minimum income required to induce the supply of a factor production is the opportunity cost of using the factor. This opportunity cost is also known as transfer earning of a factor of production. **(01 mark)**

- The portion of the factor income that consists of economic rent depends on the elasticity of supply of the factor. When the supply of a factor is perfectly inelastic, its entire income is economic rent. When the supply of a factor of production is perfectly elastic, none of its income is economic rent. **(01 mark)**

- In general, when a supply of a factor is neither perfectly elastic nor perfectly inelastic, some part of the factor income is economic rent and the other part is opportunity cost



උසස් පෙළ විද්‍යා/ගණිත/කලා/වාණිජ හා තාක්ෂණ විෂය ධාරාවන්ට අදාළ සියලුම ප්‍රශ්න පත්‍ර/සටහන් හා තවත් බොහෝ දේ ලබා ගැනීමට පිවිසෙන්න www.alevelapi.com වෙත.

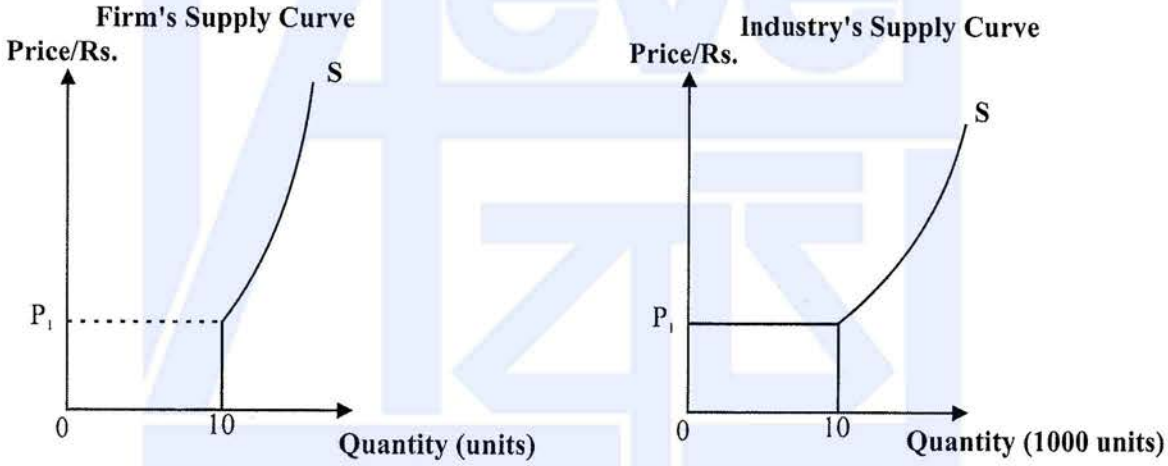
or transfer earning. Thus, any factor can earn an economic rent if it's supply has some degree of inelasticity. **(01 mark)**

**(v)** – Firms' short run supply curves are made up of the marginal cost curves at all points above minimum average variable cost and the vertical axis at all prices below minimum average variable cost. **(01 mark)**

- To construct the industry's short run supply curve, we sum the quantities supplied by all firms in the industry at each price assuming the plant size and the number of firms remain constant. **(01 mark)**

- At the shut down price, industry supply curve is horizontal and as the price rises above the shut down price, quantity supplied by the industry increases by number of firms times that of each firm. **(01 Mark)**

**Appropriate Diagrams:**




**(01 mark for the correct short run supply curve of the firm; 02 marks for the correct short run supply curve of the industry; Total marks 03)**



උසස් පෙළ විද්‍යා/ගණිත/කලා/වාණිජ හා තාක්ෂණ විෂය ධාරාවන්ට අදාළ සියලුම ප්‍රශ්න පත්‍ර/සටහන් හා තවත් බොහෝ දෑ ලබා ගැනීමට පිවිසෙන්න www.alevelapi.com වෙත.

**05**

5. (i) State whether the following activities are included in the calculation of Sri Lanka's Gross Domestic Product and explain the reasons for your answer.

(a) An investor purchases Rs. 1 million of newly issued shares of a Sri Lankan company.

(b) Construction of a new house worth of Rs. 50 million.

(c) The purchase of Rs. 50 000 worth of fish by a restaurant in Colombo from a fisherman.

(d) Collection of Rs. 5 000 worth of bee honey by a farmer from a nearby forest.

(e) A research project costing Rs. 10 million completed by a university research team on the economic impact of Covid - 19.

*(01 × 5 = 05 marks)*

(ii) You have been given the following data for a hypothetical economy.

| Item | Value (Rs. billion) |
|---|---|
| Aggregate consumption expenditure | 10 000 |
| Gross domestic capital formation | 4 000 |
| Export of goods and services | 3 500 |
| Import of goods and services | 4 500 |
| Net primary income from the rest of the world | – 400 |
| Net current transfers from the rest of the world | 1 000 |

Calculate the following based on the above data.

(a) Gross National Income *(02 marks)*

(b) Gross National Savings *(02 marks)*

(iii) The following model represents a closed economy with no government.

C = 500 + 0.8Y  I = 600 (values are in Rs. billion)

(a) How much is the autonomous expenditure in this economy? *(02 marks)*

(b) What is the equilibrium level of aggregate output? *(02 marks)*

(c) What is the value of investment multiplier? *(02 marks)*

(iv) Explain the differences between aggregate expenditure function and aggregate demand curve using appropriate diagrams. *(05 marks)*

**5. (i)** (a) Not included in GDP. Share market transactions do not reflect value additions in production. It is a financial transaction.

(b) Included in GDP. It reflects a value addition in production.

(c) Not included in GDP. It is an intermediate input used in the production of restaurant service.

(d) Included in GDP. It is a productive activity within production boundary.

(e) Included in GDP. It is a productive activity within production boundary.

**(01 mark each; Total marks 05 )**

**(ii)** - Gross Domestic Product:

(a) GDP = Aggregate consumption expenditure + Gross Domestic Capital Formation + (Export of goods and services – Import of goods and services)



Alevel ලාපි උසස් පෙළ විද්‍යා/ගණිත/කලා/වාණිජ හා තාක්ෂණ විෂය ධාරාවන්ට අදාළ සියලුම ප්‍රශ්න පත්‍ර/සටහන් හා තවත් බොහෝ දේ ලබා ගැනීමට පිවිසෙන්න www.alevelapi.com වෙත.

GDP $= 10,000 + 4000 + (3500 - 4500) =$

$= 10,000 + 4000 + (-1000) =$ Rs. 13,000 billion **(01 mark)**

**Gross National Income** = GDP + Net Primary Income from the rest of the world

GNI $= 13,000 + (-400) =$ Rs. 12,600 billi **(01 mark)**

(b) Gross Domestic Saving = GDP – Aggregate Consumption Expenditure

$S_D = 13,000 - 10,000 =$ Rs. 3,000 billion **(01 mark)**

**Gross National Saving** = Gross Domestic Saving + Net Primary Income from the rest of the world + Net current transfers from the rest of the world

$S_N = 3,000 + (-400) + 1,000 =$ Rs. 3,600 billion **(01 mark)**

**(iii)- (a) Autonomous expenditures** = Autonomous consumption + autonomous investment **(01 mark)**

$= 500 + 600 =$ Rs. 1,100 billion **(01 mark)**

- **(b) $Y = C + I$**

$Y = 500 + 0.8Y + 600;$ **(01 mark)**

$Y = 1100 + 0.8Y;$ $0.2Y = 1100;$ $Y =$ Rs. 5,500 billion **(01 mark)**

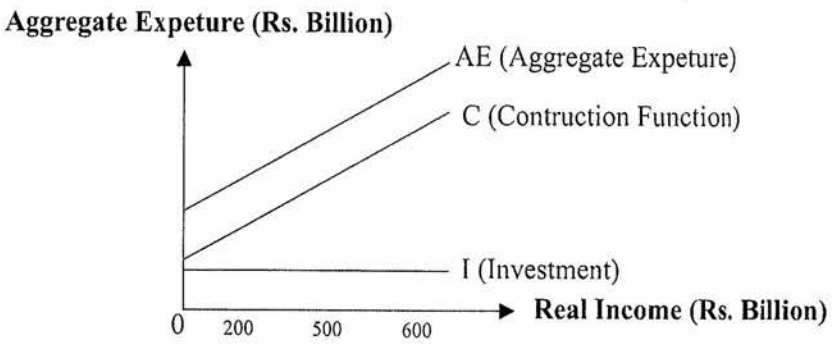
**(c) Investment multiplier (k)** $= \frac{1}{1 - mpc} = \frac{1}{1 - 0.8}$ **(01 mark)**

$= \frac{1}{0.2} = 5$ **(01 mark)**

**(iv)** – Aggregate expenditure function shows how much firms and households wish to spend on purchasing final output at each level of income. In a simple economy, the aggregate expenditure function is the sum of the consumption (C) and investment (I) functions.

**(01 mark)**

- Diagram showing aggregate expenditure function.




**(02 marks for the correct diagram)**

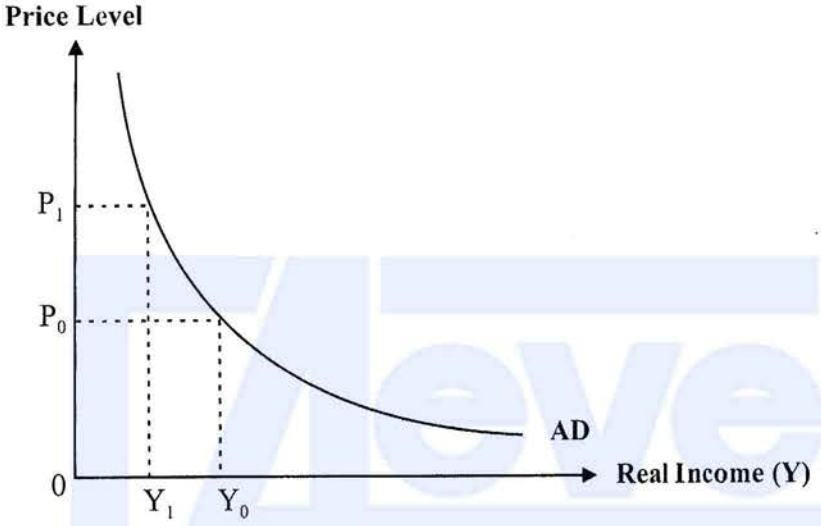


උසස් පෙළ විද්‍යා/ගණිත/කලා/වාණිජ හා තාක්ෂණ විෂය ධාරාවන්ට අදාළ සියලුම ප්‍රශ්න පත්‍ර/සටහන් හා තවත් බොහෝ දේ ලබා ගැනීමට පිවිසෙන්න www.alevelapi.com වෙත.

- Aggregate demand curve shows the various amounts of goods and services – the amounts of real domestic output – which domestic consumers, businesses, government and foreign buyers collectively will desire to buy at each possible price level.

**(01 mark)**

- Diagram showing aggregate expenditure function:




**(Correct diagram 01 mark)**

**Sub section 'B'**

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

**06**

6. (i) What is the quantity theory of money? *(04 marks)*

(ii) What are the costs of inflation? *(04 marks)*

(iii) What are the major determinants of demand for money? *(03 marks)*

(iv) State **four** core functions of the Central Bank of Sri Lanka. *(04 marks)*

(v) Assume that in a hypothetical economy during a given period of time, total money stock (M) was Rs. 6 400 billion, total amount of bank deposits (D) held by the public was Rs. 5 200 billion, statutory reserve ratio was 10% and the value of excess reserves held by the banks was Rs. 280 billion.

(a) What was the total amount of high-powered money in this economy? *(03 marks)*

(b) What was the value of money multiplier? *(02 marks)*

06. (i)– The Quantity Theory of Money states that the general price level is positively related to the quantity of money in such a way that changes in quantity of money cause proportionate changes in the price level. Thus, for example, a doubling of the quantity of money would lead to a doubling of the price level. A stable money supply would produce stable prices. **(02 marks)**



උසස් පෙළ විද්‍යා/ගණිත/කලා/වාණිජ හා තාක්ෂණ විෂය ධාරාවන්ට අදාළ සියලුම ප්‍රශ්න පත්‍ර/සටහන් හා තවත් බොහෝ දෑ ලබා ගැනීමට පිවිසෙන්න www.alevelapi.com වෙත.

- This theory is based on the Equation of Exchange: MV = PY or MV = PT. This equation can be transformed into a theory of price determination (Quantity Theory of Money) by making certain assumptions regarding the behavior ofsome variables in this equation. **(01 mark)**

  Assuming velocity of money (V) constant and full employment (that is Y or T constant), this theory predict that change in money supply (M) directly affects the change in price level (P) proportionately. **(01 mark)**

(ii) **Cost of inflation:**

- The cost of living goes up resulting lower living standards for the general public.
- Increase in absolute poverty level
- It can be unfair: Weaker social groups in society such as old people on fixed pensions lose, while others in stronger bargaining positions gain. Thus inflation affects distribution of income and wealth unfavourably.
- Unfair distributional effect occurs between borrowers and lenders. In an inflationary situation, the rate of interest may well be below the rate of inflation.
  This means that lenders are really paying a negative real interest rate to borrowers.
  Thus inflation tends to redistribute wealth from lenders to borrowers.
- Inflation distorts many types of economic behavior and imposes costs upon economic agents. It can distort consumer behavior by causing people to bring forward their purchases if they expect the rate of inflation to accelerate. Also can lead to hording of goods such as groceries.
- Uncertainties affect the behavior of firms and impose costs upon them. Long term planning becomes very difficult. Firms may be tempted to divert investment n out of productive investment into commodity hording and speculation.
- Causes overvaluation of exchange rates resulting an adverse trade balance.
- Trade union actions against rising cost of living could cause economic disruptions in the economy.
- 'Shoe leather' and 'menu' costs: In a period of rapid inflation, consumers spend more time and effort shopping around checking around which prices have or have not risen. The extra costs incurred are called 'shoe leather' costs. By contrast, 'menu' costs are incurred by firms as a result of having to adjust printed price costs, vending machines , etc. more quickly.

**(01 mark each for any four disadvantages; total marks 04)**



උසස් පෙළ විද්‍යා/ගණිත/කලා/වාණිජ හා තාක්ෂණ විෂය ධාරාවන්ට අදාළ සියලුම ප්‍රශ්න පත්‍ර/සටහන් හා තවත් බොහෝ දේ ලබා ගැනීමට පිවිසෙන්න www.alevelapi.com වෙත.

**(iii)**– Real Income
- Price level
- Interest rate
- Expectations of future inflation and interest rates
- Financial innovations.

**(01 mark each for any three determinants; total marks 03)**

**(iv)** Core functions of the Central Bank of Sri Lanka:
- Conduct of monetary policy.
- Conduct of exchange rate policy.
- Management of the official international reserves.
- Oversight of the financial system.
- Licensing, regulation and supervision of banks and selected non – bank financial institutions.
- Provision of settlement facilities and the regulation of the payment system.
- Issue and distribution of the national currency.
- Compilation and dissemination of economic data and statistics.
- Acting as the banker and financial adviser to the Government.

**(01 mark each for any four functions; total marks 04)**

**(v) (a)** High-powered money (H) = currency held by public ($C_P$) + Currency held by commercial banks ($C_B$)

Currency held by the public ($C_P$) = Total Money Stock (M) - Total deposits held by Public (D)

$= 6,400 - 5,200 = 1200$ **(01 mark)**

Currency held by commercial banks ($C_B$) = Required reserves + Excess reserves

Required reserves = $rD = 0.10\,(5200) = 520$

Excess reserves = 280

Currency held by commercial banks ($C_B$) = $520 + 280 = 800$ **(01 mark)**

**Total amount of high-powered money** = $CP + CB = 1200 + 800$

= Rs. 2,000 billion **(01 mark)**

**(b)** Money multiplier (m) = $\frac{M}{H} = \frac{\text{Total Money Stock}}{\text{High-powered Money}}$ (01 mark)

$= \frac{6400}{2000} = \frac{16}{5} = 3.2$ **(01 mark)**

**Alternative Answer:**

Money multiplier (m) = $\frac{1+c}{c+r+er}$

- c = Currency to deposit ratio (C/D) : 1200/5200 = 3/13 = 0.23
- r = Statutory reserve ratio: 10%
- er = Excess reserve ratio (ER/D) : 280/5200 = 7/130 = 0.05

Money multiplier (m) = $\frac{1+c}{c+r+er} = \frac{1+0.23}{(0.23+0.10+0.05)}$ **(01 mark)**

$= \frac{123}{0.38} = 3.24$ **(01 mark)**



උසස් පෙළ විද්‍යා/ගණිත/කලා/වාණිජ හා තාක්ෂණ විෂය ධාරාවන්ට අදාළ සියලුම ප්‍රශ්න පත්‍ර/සටහන් හා තවත් බොහෝ දේ ලබා ගැනීමට පිවිසෙන්න www.alevelapi.com වෙත.

**07**

7. (i) State whether the following goods and services can be considered as pure public goods. Give reasons for your answer.
   (a) Lighthouses
   (b) Ocean fish
   (c) The Internet (03 *marks*)

   (ii) Name **two** merit goods and explain why they are considered as merit goods. (04 *marks*)

   (iii) Distinguish between 'appropriation bill' and 'vote on account'. (04 *marks*)

   (iv) What are the non-tax revenue sources of the government of Sri Lanka in the recent years? (04 *marks*)

   (v) Why does a free market overproduce a good with negative externalities? Illustrate your answer with a diagram. (05 *marks*)

**07. (i) -** Light house: Light house service is a public good; It is non- rival in consumption, in the sense that there is no less available for anyone person because another 1.23 person is benefitting from it. It is also non excludable because if provided for one person it is automatically available for everybody.

- Ocean Fish: It is a common resource; Non-excludable in using it. No one can be prevented from using it. They are rival because fish taken by one person is not available to anyone else.

- The Internet: Not a pure public good. Users can be excluded but non-rival in consumption. It can be consumed simultaneously by everyone.

**(01 mark each; total marks 03)**

**(ii)** - Health care
- Primary education
- Inoculations for children
- work training programmes
- public libraries
- Museums

**(01 mark each for any two goods or services and total marks 02)**

- Consumption of merit goods is believed often to generate **positive externalities.** Social benefits of consumption of these goods and services to the community as a whole exceed the private benefits to the consumer. **(02 marks)**

**(iii)-** The Appropriation Bill is placed before the Parliament to get its approval for the estimates of government expenditure, revenue and borrowing limits which are expected to operate in the new financial year. Appropriation Bill is a money bill that allows the government to withdraw funds from the Consolidated Fund to meet its



උසස් පෙළ විද්‍යා/ගණිත/කලා/වාණිජ හා තාක්ෂණ විෂය ධාරාවන්ට අදාළ සියලුම ප්‍රශ්න පත්‍ර/සටහන් හා තවත් බොහෝ දේ ලබා ගැනීමට පිවිසෙන්න www.alevelapi.com වෙත.

expenses during the course of a financial year.

- The government can withdraw money from the Consolidated Fund only after receiving approval from Parliament. Once the Appropriation Bill approved by he Parliament, it is called the Appropriation Act. **(02 marks)**

- The **Vote on Account** is the special provision given to the government to obtain the vote of Parliament to withdraw money when the budget for the new financial year is not released due to some unexpected events or the elections are underway, and the caretaker government is in place.

- Vote on account is the permission to withdraw money from the Consolidated Fund for a period of three to four months. Essentially, vote on account is the interim permission of the parliament to the government to spend money. It does not contain any proposal for revenue generation. **(02 marks)**

**(iv)** Non tax revenue sources:
- Interest
- Rent
- profits and dividend transfers from SOBEs
- Central Bank profit transfers
- Sales and charges
- Social security contributions

**(01 mark each for any four items; total marks 04)**

**(v)** - When the production of a good or service entails negative externalities, over production occurs because the firm operating in a free market fails to take into account the external costs.

www.alevelapi.com

- When there are external costs in production, social cost exceeds the private cost. But in an unregulated market, production decisions are based purely on private benefits and private costs. As a result too much output is produced (over production). **(02 marks)**

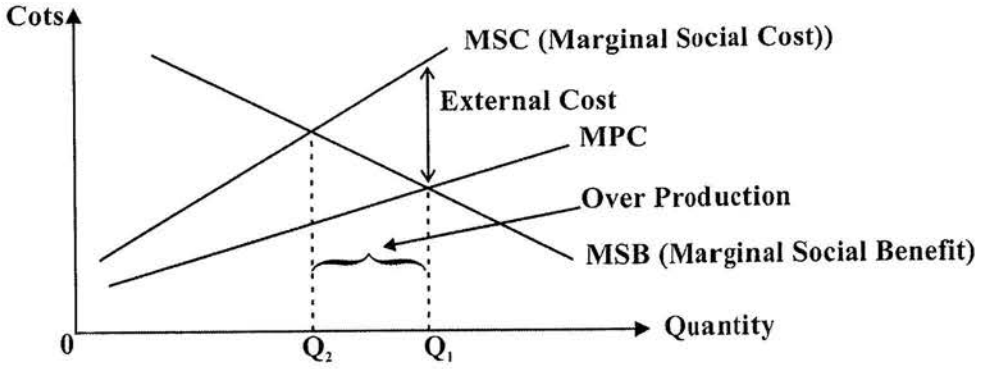
- This situation can be illustrated with a demand – supply diagram as shown below: External cost represents the vertical distance between MPC and MSC curves. When external costs are not taken into account, the free market equilibrium output is Q in contrast to the socially optimum output level of $Q_1$ . The quantity difference between Q and Q1 indicates the amount of overproduction.



උසස් පෙළ විද්‍යා/ගණිත/කලා/වාණිජ හා තාක්ෂණ විෂය ධාරාවන්ට අදාළ සියලුම ප්‍රශ්න පත්‍ර/සටහන් හා තවත් බොහෝ දෑ ලබා ගැනීමට පිවිසෙන්න www.alevelapi.com වෙත.

www.AlevelApi.com






**(02 marks for the correct diagram)**

(01 mark for explain diagram)

| 08 | |
|---|---|
| 8. (i) Distinguish between comparative advantage and competitive advantage. | (04 *marks*) |
| (ii) What are the major obstacles Sri Lanka encounters to achieve a rapid growth in export earnings? | (05 *marks*) |
| (iii) What is meant by official reserve assets in a country? List its major components. | (05 *marks*) |
| (iv) Is it possible to have a comparative advantage in the production of a good without having an absolute advantage? Explain your answer with a numerical example. | (06 *marks*) |

**08. (i)** - In economics, comparative advantage refers to the ability of a country to produce a particular good or service at a lower opportunity cost over another country. Even if one country is more efficient in the production of all goods (has an absolute advantage in all goods) than another, both countries will still gain by trading with each other.

**(01 mark)**

- Comparative advantage is determined by a country's resources, that is the land, labour capital and enterprise. In addition, factors such as increasing returns to scale, interest rates, exchange rate also contribute to generate comparative advantages. **(01 mark)**

- Competitive advantage is the leverage that a business has over its competitors. This can be gained by offering clients better and greater value. A competitive advantage exists when the firm is able to deliver the same benefits as competitors but at a lower cost (cost advantage), or deliver greater benefits and service than its competitors (differentiation advantage) that justifies higher prices.

- This concept can be applied to an individual firm as well as to an entire nation. Competitive advantage rests on the notion that cheap labour is ubiquitous and natural resources are not necessary for a good economy. National prosperity is created, not inherited. It does not grow out of a country's natural endowments, its labor pool, its interest rates, or its currency's value, as classical economics insists.

**(01 mark)**



උසස් පෙළ විද්‍යා/ගණිත/කලා/වාණිජ හා තාක්ෂණ විෂය ධාරාවන්ට අදාළ සියලුම ප්‍රශ්න පත්‍ර/සටහන් හා තවත් බොහෝ දෑ ලබා ගැනීමට පිවිසෙන්න www.alevelapi.com වෙත.

- A nation's competitiveness depends on the capacity of its industry to innovate and upgrade. High levels of productivity, effective use of technology, use of bargaining power to negotiate the lowest prices for inputs, access to most effective distributional channels, superior quality products, branding, intellectual property are important sources of competitive advantage. **(01 mark)**

**(ii)** – Very limited diversification of export products: Export composition has been highly stable since the mid-1990s. They have not diversified beyond a set of few traditional goods, garments, tea and rubber.

- Lack of diversification of export markets: Europe and USA continue to account for approximately two-thirds of total exports. Further, approximately 70% of tea exports are to the Middle East and Commonwealth of Independent Nations.

- Lack of investment in export-oriented industries. Export-oriented foreign direct investment (FDI) has played a key role in creating a dynamic, fast growing export sector in the Newly Industrilized Countries (NICs) in East Asia, but Sri Lanka has not been successful in tapping into this vain.

- Sri Lanka's exports are biased towards low-complexity products, implying low know-how. Sri Lanka's production system is based on simple technology, borrowed from Western nations when they moved from simple technology to complex technology.

- Current major export industries are being squeezed, with wage growth outpacing productivity gains.

- High cost and low productivity in tea export sector: Input costs and technology used (labour intensive) and low land productivity (older plantations have lower yield) imply higher cost of production in Sri Lanka compared to other tea producing nations.

- Declining labour force and increasing labour cost: Retaining labour I tea estates has become a challenge. This results from a combination of factors such as the low social status of the work, improved education among younger generation and other more dignified and lucrative employment opportunities outside of tea estates.

**(01 mark each for any five obstacles; Total marks 05)**

**(iii)** - Official reserve assets are those financial assets that can be used as international means of payments. **(02 marks)**



උසස් පෙළ විද්‍යා/ගණිත/කලා/වාණිජ හා තාක්ෂණ විෂය ධාරාවන්ට අදාළ සියලුම ප්‍රශ්න පත්‍ර/සටහන් හා තවත් බොහෝ දේ ලබා ගැනීමට පිවිසෙන්න www.alevelapi.com වෙත.

- Official reserve assets comprise:
  (a) Monetary Gold
  (b) Foreign exchanges,
  (c) Special Drawing Rights (SDRs), and
  (d) Reserve positions with the IMF.
  (e) Marketable securities denominated in foreign currencies
  (f) Foreign currency loans

**(01 mark each for any three items; Total marks 03)**

**(iv)** - Absolute advantage refers to a country having higher (absolute) productivity or lower cost in producing a commodity compared to another country. However, absolute advantage in the production of a commodity is neither necessary nor sufficient for mutually beneficial trade. **(01 mark)**

- For example, a country may be experiencing absolute disadvantage in the production of all commodities compared to another country, yet the country may derive benefits by engaging in international trade with other countries, due to relative (comparative) advantage in the production of some commodities vis-à-vis other countries.

- Likewise, absolute advantage in the production of a commodity is not sufficient, since the country may not have relative (comparative) advantage in the production of that commodity. **(01 mark )**

- **Numerical example:**
  The following table describes the that number of cloth and bicycle units that can be produced with a week's worth of labour in India and Sri Lanka:

| **Commodity** | **India** | **Sri Lanka** |
|---|---|---|
| Garments (units) | 12 | 8 |
| Bicycles (units) | 6 | 2 |

**(02 marks for the numerical example)**

- In this example, Sri Lanka does not have absolute advantage in any of the goods. India has the absolute advantage in both goods. Still, it is possible for Sri Lanka to achieve comparative advantage in the production of garments. Because the opportunity cost of producing 1 unit of garments in India is 0.5 units of bicycles; whereas in Sri Lanka it is 0.25 bicycles. Sri Lanka has the Comparative cost advantage in the production of garments. there for Sri Lanka will benifit by engege in trade,

**(02 marks for the calculation of opportunity cost)**



උසස් පෙළ විද්‍යා/ගණිත/කලා/වාණිජ හා තාක්ෂණ විෂය ධාරාවන්ට අදාල සියලුම ප්‍රශ්න පත්‍ර/සටහන් හා තවත් බොහෝ දේ ලබා ගැනීමට පිවිසෙන්න www.alevelapi.com වෙත.

| 09 | |
|---|---|
| 9. (i) Outline the main sources of economic growth. | (04 *marks*) |
| (ii) What are the key limitations of Human Development Index as a measure of development? | (05 *marks*) |
| (iii) "Samurdhi programme has had a minor and decreasing impact on poverty reduction in Sri Lanka". Do you agree with this statement of the World Bank? Give reasons for your answer. | (05 *marks*) |
| (iv) Describe how the demographic changes are imposing new challenges to social safety net for elderly population in Sri Lanka. | (06 *marks*) |

**09.** (i)– Resource endowment: Natural capital, physical capital, human capital and social Capital

- Productivity: Improvement in technology, innovations, increase in R&D and improvement in management
- Economic stability (desirable macroeconomic fundamentals)
- Conducive business environment: infrastructure, finance and banking system efficiency, the efficiency of markets, market incentives, taxation and regulation which affect the productivity of firms.
- Openness to trade and investment
- Education system: efficiency and relevance
- Political stability and absence of violence
- Good governance: accountability. rule of law, government effectiveness, control of Corruption
- Entrepreneurial ability

**(01 mark each for any four sources; Total marks 04)**

(ii)– HDI is an aggregate index for a single country and as such does not distinguish between different rates of development and internal disparities within a country, such as between urban and traditional rural communities.

- HDI does not take into account every aspect of human development. It focuses on three dimensions of basic capabilities. The other aspects such as participation, political freedom, human security are also important.

- Equal weight is given to each of the three main components. Critics argue that the equal weighting between the three main components is rather arbitrary.

- Development is largely about freedom, but the index does not directly measures this. For example, access to the internet might be regarded by many as a freedom which improves the quality of people's lives.



උසස් පෙළ විද්‍යා/ගණිත/කලා/වාණිජ හා තාක්ෂණ විෂය ධාරාවන්ට අදාළ සියලුම ප්‍රශ්න පත්‍ර/සටහන් හා තවත් බොහෝ දෑ ලබා ගැනීමට පිවිසෙන්න www.alevelapi.com වෙත.

- As with the narrow measure of living standards, GDP per capita, there is no indication of the distribution of income.

- There is no attention to the role of quality (i.e. quality of schooling, extra year of life as healthy).

- HDI does not allow to judge the relative importance of its different components or to understand why a country's index changes over time – whether, for example, it happens because of a change in GNI per capita or because of a change in adult literacy.

**(01 mark each for any five weaknesses; Total marks 05)**

**(iii) -** The Samurdhi (or Prosperity) Programme was launched in 1995. Its main goal was to reduce poverty in Sri Lanka through development based on public participation. The key components of the Samurdhi programme included:

- The provision of a food stamp to eligible households, ccounting for approximately 80 percent of the total Samurdhi budget. These consist of small monthly stamps worth between Rs. 200 to Rs. 1,500, given to families identified as poor by community offices.

- A savings and credit programme operating through the "Samurdhi banks", with loans destined for entrepreneurial and business development;

- The rehabilitation and development of community infrastructure through a number of workfare and social (or human) development programmes – productivity development training, training in accounting functions, training of executive committees, and material resource development.

- One key proposal in Budget 2019 was to expand Samurdhi by 600,000 people. Samurdhi is the largest social welfare program in the country, which was allocated Rs. 43 billion in 2017 and already has about 1.4 million families on its roster.

**(02 marks)**

- A review of the project by the World Bank concluded that: "Based on the empirical analysis of the distributional outcomes, Samurdhi does not emerge as an efficient transfer programme. It is modestly successful in reaching the intended beneficiaries, but it transfers a large portion of its resources to the non-poor."

- Samurdhi transfers are too small to make a large impact on poor households' budgets,



උසස් පෙළ විද්‍යා/ගණිත/කලා/වාණිජ හා තාක්ෂණ විෂය ධාරාවන්ට අදාළ සියලුම ප්‍රශ්න පත්‍ර/සටහන් හා තවත් බොහෝ දෑ ලබා ගැනීමට පිවිසෙන්න www.alevelapi.com වෙත.

as they contributed only 1.7% to household consumption of the poorest 20% of the population in 2012/13. In other words, subtracting the Samurdhi benefit from household consumption would increase the national poverty rate by 2.1% points in 2020. But by 2012/13, the comparable figure had declined to merely 0.6% points.

- In 2007, the Centre for Poverty Analysis (CEPA) found that the Samurdhi food stamp programme, "which constitutes 80% of the total programme budget, misses about 40% of the households in the poorest quintile while almost 44% of the budget goes to households in the top three quintiles. As evident from the surveys, a significant percentage of each income decile receives Samurdhi benefits. Beneficiaries placed between the 3rd and 10th income deciles find themselves above the current national poverty line, which lies within the second income decile.

- It has been observed that the biasness of grassroots level officers, Samurdhi Development Officers (SDOs) as one of the major reasons for targeting errors relationships rather than the Samurdhi eligibility and exit criteria.

- Targeting procedure of the Samurdhi programme has been influenced by local political patronage, particularly at the grassroots level as many of these officers are political appointees.

**(01 mark each for any three main weaknesses; Total marks 05)**

**(iv) -** The demographic transition faced by Sri Lanka will be particularly dramatic. Population aging is a universal phenomenon, but it looms particularly large for Sri Lanka: not only is its population among the oldest in the non-developed world, but Sri Lanka is also one of the fastest aging countries in the world. Sri Lanka's share of population over 60 years old in 2000 was 9.2% and is expected to increase to 30% in 2050. **(01 mark)**

- Sri Lanka is undergoing profound demographic change with an aging labor force and limited savings and institutional support mechanisms to protect its rapidly expanding elderly population. Savings, pensions and long-term care to support its growing elderly population are inadequate both in terms of their adequacy and coverage.

- The Public Servants Pension Scheme (PSPS) provides a relatively generous defined-benefit pension for Government employees. But the costs of the scheme are projected to increase in the coming years from the current cost of about 1.4 percent of GDP thereby making it increasingly difficult for the authorities to afford the benefit promises over the long-term. **(01 mark)**



උසස් පෙළ විද්‍යා/ගණිත/කලා/වාණිජ හා තාක්ෂණ විෂය ධාරාවන්ට අදාළ සියලුම ප්‍රශ්න පත්‍ර/සටහන් හා තවත් බොහෝ දේ ලබා ගැනීමට පිවිසෙන්න www.alevelapi.com වෙත.

- The EPF is an employer-based defined-contribution savings scheme for formal private sector workers, covering about a third of the labor force. The EPF has relatively good coverage among the formal sector, but it plays a limited role in financing retirement for most workers. It provides a relatively small benefit, at too young an age to support an adequate retirement as Sri Lankans expect to live to an age of 80 at age 55

**(01 mark)**

- The non-contributory social pension scheme, Elderly Benefit, provides modest support to the poorest elders (over 70) but there is a long waiting list of eligible applicants. Around 400,000 people receive the Rs. 2,000 per month from the government, but another 100,000 approximately are eligible and excluded due to budget constraints. The benefit is also very modest - about half of the poverty line - so may be insufficient to sustain the livelihoods of many poor elderly.

**(01 mark)**

- Although the country has a relatively robust health care system, this system has yet to be adapted to the needs of its aging population such as the need for treatment of non-communicable diseases and provision of long-term care for elderly patients.

**(01 mark)**

- The family is the main support of old people, but there are signs of emerging strains in the traditional support system. Primary caregivers, mainly women, who both work and care for both children and parents, report considerable stress in their lives.

- If families continue to provide care, this may well impose opportunity costs for care givers in terms of forgone labor market participation. Support to families taking care of an increasing number of elderly over a longer period of time through cost effective community based social care services and income support (pensions, safety nets) for the elderly, may be required.

**(01 mark; Total marks 06)**



උසස් පෙළ විද්‍යා/ගණිත/කලා/වාණිජ හා තාක්ෂණ විෂය ධාරාවන්ට අදාළ සියලුම ප්‍රශ්න පත්‍ර/සටහන් හා තවත් බොහෝ දෑ ලබා ගැනීමට පිවිසෙන්න www.alevelapi.com වෙත.

**10**

**10.** (i) What is the Fourth Industrial Revolution (4IR)? Is Sri Lanka ready to face it? Explain your answer. (05 *marks*)

(ii) Describe briefly the economic impact of Covid - 19 pandemic on Sri Lanka. (05 *marks*)

(iii) "Sri Lanka has failed to sustain a high growth rate over extended periods of time". Prove this statement and give reasons for the under-performance of the Sri Lankan economy. (05 *marks*)

(iv) "The development experiences of Sri Lanka since independence clearly illustrates that the economic policies have often been determined not by their efficacy, but by ideological considerations". Explain this statement with examples. (05 *marks*)

**10.** (i) - The Fourth Industrial Revolution is the current and developing environment in which disruptive technologies and trends such as Internet of Things (IoT), robotics, virtual reality (VR), 3D printing and artificial intelligence (AI) are changing the way we live and work. **(01 mark)**

- It's the collective force behind many products and services that are fast becoming indispensable to modern life. Think GPS systems that suggest the fastest route to a destination, voice-activated virtual assistants such as Apple's Siri, personalized Netflix recommendations, and Facebook's ability to recognize your face and tag you in a friend's photo.

- The industrial revolution 4.0 (4IR) brings about a paradigm shift in the economy, social life, health, education, lifestyle, employment and skills development. This is due to the development of advanced technology that will replace the human workforce with automation and robotics.

**(01 mark)**

- However, Sri Lanka has not thus far created a conducive ecosystem that facilitates the integration of modern technologies into economic and social facets of daily life by addressing structural issues. Success, therefore, depends heavily on identifying and addressing wider structural and institutional impediments, followed by a careful diagnostic of each economic sub-sector and recognising how 4IR can be used for greater and more inclusive economic growth.

- Sri Lanka which is still in the Second Industrial Revolution or 2IR has to make a quantum leap in order to join 4IR. At its most basic level, a significant proportion of 4IR technologies are emerging around the use of computers and the IoT. Therefore, Sri Lanka's low computer literacy rates and lack of internet access makes it challenging for the country to absorb, implement, and leverage 4IR advancements. Only 34% Sri Lanka's population uses the internet. This lack of internet usage corresponds with a low national computer literacy rate of 22.9% in 2018.



උසස් පෙළ විද්‍යා/ගණිත/කලා/වාණිජ හා තාක්ෂණ විෂය ධාරාවන්ට අදාළ සියලුම ප්‍රශ්න පත්‍ර/සටහන් හා තවත් බොහෝ දේ ලබා ගැනීමට පිවිසෙන්න www.alevelapi.com වෙත.

- The disparity in the availability of technological infrastructure and usage is most likely due to structural factors such as gender and sectoral disparities. For instance, the gender gap for internet usage is estimated to be as high as 40%. Furthermore, there are significant disparities in IT literacy levels between the urban (36.9%), rural (22.0%), and estate (8.6%) sectors.

- To achieve human capital readiness, an economy has to create a high-skilled, agile, and multi-faceted labour force, with transferable skills, to face potential disruptions. Sri Lanka has long touted its high literacy rate. However, basic literacy and numeracy based employment are likely to suffer the most during the 4IR era.

- It has been estimated that only 10% of age 20 and above population has formal professional or technical training relevant to their occupation. Even in university, a vast majority study Arts subjects and relatively fewer study Science, Technology, Engineering, and Mathematics (STEM subjects) – a priority area under 4IR. Notably, even at the school level, the share of subject qualified teachers in STEM subjects are lower than the recommended level. This indicates low human capital readiness.

- Critically, only 6.7% of Sri Lanka's manufacturing value addition is estimated to take place through medium hi-tech and hi-tech industries. As such, the country is dependent on industries that are susceptible to losing value and becoming obsolete during the 4IR.
  For example, sectors like the textile and garment industry could potentially be affected by labour displacement, due to technological disruption.

- Much of Sri Lanka's services sector growth has been in non-tradable services, such as transport and retail. Although these services have not experienced any transformations thus far, eventually, technologies such as self-driving vehicles will create disruptions to the labour market and the structure of the sector.

**(01 mark each for any three weaknesses; Total marks 05)**

**(ii) -** The COVID-19 outbreak has further weakened the already challenging macroeconomic situation of low growth rates and significant fiscal pressures in Sri Lanka. The economic implications of COVID-19 on Sri Lanka, hinge not only on the situation within the country, but also on critical markets such as the United States, Europe, and China.

- Growth will be negatively affected as the outbreak dampens export earnings, private consumption and investment. The Asian Development Bank (ADB) forecast Sri Lanka's economic growth to contract by 5.5 per cent in 2020. The slowdown in



උසස් පෙළ විද්‍යා/ගණිත/කලා/වාණිජ හා තාක්ෂණ විෂය ධාරාවන්ට අදාළ සියලුම ප්‍රශ්න පත්‍ර/සටහන් හා තවත් බොහෝ දේ ලබා ගැනීමට පිවිසෙන්න www.alevelapi.com වෙත.

economic activity could trigger jobs and earnings losses. Informal workers comprise about 70 percent of the workforce and are particularly vulnerable as they lack employment protection or paid leave.

- Small economies such as Sri Lanka, in particular, whose economic backbone is made up of micro, small, and medium sized enterprises (MSMEs), dependent on export revenue for foreign currency generation, and is simultaneously managing a critical debt and fiscal crisis, are going to be particularly vulnerable.

- A global recession is likely to significantly reduce the demand for Sri Lanka's exports, and lead to considerable job losses. In fact, the European Union, UK and USA are the main export destinations of Sri Lanka and therefore, the demand for Sri Lanka exports is going to be severely affected.

- China's economic slowdown could severely inhibit a major source of foreign direct investment (FDI) to the economy. China is not a major exporting destination of Sri Lanka and however China is the second largest source market of Sri Lanka in terms of imports and tourist arrivals. Therefore, China's slow down due to COVID-19 may have significant impacts on Sri Lanka economy as well.

- The tourism sector, which is the third largest foreign income earner of Sri Lanka, has been drastically affected by COVID-19. In fact, major tourism markets of Sri Lanka have been suffering from the pandemic and therefore imposed travel bans for their citizens.

- The apparel industry which accounts for about half a million jobs has announced significant job cuts due to low global demand and a shortage of raw materials.

- Sri Lanka is vulnerable to uncertain global financial conditions as the repayment profile requires the country to access financial markets frequently. A high deficit and rising debt levels could further deteriorate debt dynamics and negatively impact market sentiments.

**(01 mark each for any five economic impacts; Total marks 05)**

**(iii)** - Sustained rapid economic growth has eluded Sri Lanka. During the 70 years after independence, the Sri Lankan economy grew by an annual average of only around 4%. High growth was achieved only in a few years.

- The economy grew by only an annual average of 3% in the 1950s and by 4.7% percent in the 1960s. Owing to severe domestic and international constraints, the annual



උසස් පෙළ විද්‍යා/ගණිත/කලා/වාණිජ හා තාක්ෂණ විෂය ධාරාවන්ට අදාළ සියලුම ප්‍රශ්න පත්‍ර/සටහන් හා තවත් බොහෝ දේ ලබා ගැනීමට පිවිසෙන්න www.alevelapi.com වෙත.

average economic growth rate decreased to 3.9% in the 1970s with it being as low as 2.9% in 1970-75. The annual average economic growth rate increased to 4.3% in the 1980s and to 5.2% in the 1990s. Economic growth in the first decade of the new millennium was slightly lower at 5%. Growth was 5.4% in 2010 to 2014 and fell to 3.5% in the four years (2015 -18). **(02 marks)**

- The reasons for the failure to achieve a sustained economic growth are many. These include the ethnic violence and civil war, the frequent changes of government and the consequent changes and uncertainty in economic policies, preoccupation with politics and religion rather than a serious concern in economic development.

- Ideological rather than pragmatic policies, inability to seize the opportunities to export in a liberalised international economy and neglect of and underdevelopment of technical skills are among the many reasons for the country's economic underperformance.

- Adverse terms of trade, external shocks, such as fuel price hikes and adverse global financial developments and unfavourable geopolitical developments have also affected the economy adversely during the last 71 years.

- While these external and internal shocks had much to do with the poor economic performance, inappropriate inward looking policies, discontinuity of economic policies and weak economic management were important factors for slowing economic growth. Fundamentally different economic regimes alternated giving rise to considerable uncertainty, reversal of economic policies and an unsatisfactory climate for foreign and domestic investment.

- The slow growth in exports has been the bane of Sri Lanka's economic performance in the past. The faster growth in GDP than exports reveals that the economic growth has basically been attained by concentrating on domestic economy based economic policies. They offer the advantage of allowing a country to go through adverse external shocks with minimum damage to the economy. However, they do not help a country to grow because of the limitations in the domestic market.

**(01 mark each for any three reasons; 03 marks; Total marks 05)**

**(iv) -** Pragmatic economic policies are policies that are suitable to the particular economic situation and are effective in generating economic growth. The rapid development of East Asian countries was undoubtedly due to their pragmatic economic policies. They figured out that rapid economic growth needed the adoption of open economic policies. They invited foreign capital and foreign industries to be established in their countries and adopted an export-led economic growth strategy.



උසස් පෙළ විද්‍යා/ගණිත/කලා/වාණිජ හා තාක්ෂණ විෂය ධාරාවන්ට අදාළ සියලුම ප්‍රශ්න පත්‍ර/සටහන් හා තවත් බොහෝ දේ ලබා ගැනීමට පිවිසෙන්න www.alevelapi.com වෙත.

- Sri Lanka has been unable to adopt effective economic policies owing to ideological commitments and lack of pragmatism in economic policies. In contrast, former communist countries and those that were inward looking, liberalised their economic and trading policies. **(02 marks)**

- Sri Lanka's economic policies have often been determined not by their efficacy, but ideological considerations. A good example is the nationalisation or state takeover of the plantations. The plantations that were profitable ventures contributing to the state coffers became financial liabilities. Production on the state owned plantations decreased. They ran at a loss like other state enterprises and had to be financed by government revenue.

- That over 300 state owned enterprises are running at a loss is a clear example of ideological factors and vested interests not allowing some of these to be privatised. Instead year-in year-out these enterprises are a huge drain on the economy. For many y ears there has been talk of reforming state owned enterprises but little has been achieved.

- The reason why governments are unable to privatise state owned enterprises are manifold. There is a popular notion that privatisation of state enterprises is a "selling of family silver." The masses have been indoctrinated to think that privatisation is a process of selling government wealth.

- President Chandrika Bandaranaike privatised a few enterprises and reduced the burden of the government. These included, telecommunications, Sri Lankan Airlines and the gas company. The privatisation of telecommunications revolutionised telecommunications in the country. Sri Lankan Airlines was re-vested in the government and continues to incur huge losses.

- State ownership of businesses provides politicians an opportunity for corruption, providing employment to gain popular support and various means of earning money.

- There are many areas of economic policies other than those cited above that are guided by ideology or vested interests, rather than pragmatism. These include trading policies. Although the country liberalised trade in 1977, over time some of the trade liberalisation has been blunted.

- It is estimated that the country, which was a pioneer in trade liberalization in South Asia in 1977, is one of the most protected economies in Asia. This is owing to several charges on imports that have been placed from time to time. Para-tariffs have made the country a protected one.

**(01 mark each for any three examples- 03 marks; Total marks 05)**



උසස් පෙළ විද්‍යා/ගණිත/කලා/වාණිජ හා තාක්ෂණ විෂය ධාරාවන්ට අදාළ සියලුම ප්‍රශ්න පත්‍ර/සටහන් හා තවත් බොහෝ දේ ලබා ගැනීමට පිවිසෙන්න www.alevelapi.com වෙත.

## NOTES

www.alevelapi.com



උසස් පෙළ විද්‍යා/ගණිත/කලා/වාණිජ හා තාක්ෂණ විෂය ධාරාවන්ට අදාල සියලුම ප්‍රශ්න පත්‍ර/සටහන් හා තවත් බොහෝ දෑ ලබා ගැනීමට පිවිසෙන්න www.alevelapi.com වෙත.