



Economics & Business Environment

FORMATION 1 EXAMINATION – JULY 2019

NOTES:

Answer all Questions in Section A

Answer only 3 Questions in Section B

TIME ALLOWED:

3 hours, plus **10 minutes** to read the paper

INSTRUCTIONS:

During the reading time you may write on the examination paper, but you may not commence writing in your answer book. **Please read each Question carefully.**

Marks for each question are shown. The pass mark required is 50% in total over the whole paper.

Start your answer to each question on a new page.

You are reminded to pay particular attention to your communication skills, and care must be taken regarding the format and literacy of your solutions. The marking system will take into account the content of your answers and the extent to which answers are supported with relevant legislation, case law or examples, where appropriate.

List of the cover of each answer booklet, in the space provided, the number of each question attempted.

SECTION A- Question 1 COMPULSORY

SECTION A

Answer All MCQ Questions in this section.

- 1) We are forced to make choices because
 - a. not everything is limited.
 - b. shortages are a constant situation.
 - c. we live in a democracy.
 - d. all resources are limited

- 2) The value of the next best alternative that had to be given up to do the action that was chosen is the
 - a. sale price.
 - b. trade-off.
 - c. opportunity cost.
 - d. capital.

- 3) Which of the following is a strength of a market economy?
 - a. It gives producers and consumers a great deal of freedom.
 - b. It provides centralized planning.
 - c. It offers guaranteed lifetime employment.
 - d. No one is allowed to live in poverty.

- 4) An individual demand curve slopes downward to the right because of the:
 - a. Working of the law of diminishing marginal utility
 - b. Substitution effect of decrease in price
 - c. Income effect of fall in Price
 - d. All of the above

- 5) In the short run, when the output of a firm increases, its average fixed cost:
 - a. Remains constant
 - b. Decreases
 - c. Increases
 - d. First decreases and then rises

- 6) In which of the following market structure is the degree of control over the price of its product by a firm very large?
- Imperfect competition
 - Perfect competition
 - Monopoly
 - In A and B both
- 7) Which among the following statements is INCORRECT?
- Coefficient of correlation can be computed directly from the data without measuring deviation.
 - Measures of Dispersion are also called averages of the second order.
 - Standard deviation can be negative.
 - Mean deviation can never be negative.
- 8) _____ is the official minimum rate at which the Central Bank of a country is prepared to re discount approved bills held by the commercial banks.
- Repo rate
 - Bank rate
 - Prime lending rate
 - Reverse repo rate
- 9) _____ is the difference between total receipts and total expenditure.
- Capital deficit
 - Budget deficit
 - Fiscal deficit
 - Revenue deficit
- 10) Which among the following is NOT correct?
- During inflation lenders suffer and borrowers benefit out'
 - Rising inflation indicates rising aggregate demand and indicates comparatively lower supply and higher purchasing capacity among the consumers'

- c. With rising inflation the currency of the economy depreciates provided it follows the flexible currency regime.
- d. Inflation decreases the nominal (face) value of the wages while the real value increases.

11) A change in fiscal policy affects the balance of payments through:

- a. The current account only
- b. The capital account only
- c. Both, the current account and capital account
- d. Neither current account nor capital account

12) Balance of Payment on capital account includes:

- a. Balances of private direct investments
- b. Private portfolio investments
- c. Government loans to foreign governments
- d. All of the above

13) When national income is calculated with reference to a base year, it is called:

- a. Nominal national income
- b. Net national income
- c. Real national income
- d. Gross national income

14) In a perfectly competitive market a firm in the long run will be in equilibrium when:

- a. $AC = MC$
- b. $AR = MR$
- c. $MR = MC$
- d. $P = AR = MR = AC = MC$

15) Which of the following is a component of M-1?

- a) Savings deposits
- b) Credit card
- c) Checkable deposits
- d) Gold

16) In buyer decision process, stage in which buyer evaluate alternating brands within same category is

- a) Need recognition
- b) Information search
- c) Evaluation of alternatives
- d) Both b and c

17) Research on consumer buying behaviour answers

- a) what consumers buy
- b) why consumers buy
- c) where consumers buy
- d) all of above

18) What are the factors that contribute to the Business Success?

- a) Marketing resources
- b) Physical assets
- c) Financial factors
- d) All of the above

19) Setting a low initial price to attract a large number of buyers quickly and cover the large market share is known as

- a) Skimming pricing
- b) Going-rate pricing
- c) Value based pricing
- d) Penetration pricing
- e) All of these

20) Which among these is a factor affecting business Environment?

- a) Value System
- b) Human Resources
- c) Both (A) and (B)
- d) Neither (A) nor (B).

Total: 40 Marks

SECTION B- Answer any THREE Questions

SECTION B

Answer ANY THREE of the four questions in this section.

1)

(a) Briefly Outline factors that determine the supply of a good or service (6 marks)

(b) Explain the difference between a movement along a supply curve and a shift in a supply curve. Use appropriate diagrams to illustrate your answer. (6 marks)

(c) Read the following statements and indicate if they are TRUE or FALSE. Explain your answer in each case.

(i) The cross price elasticity of demand for substitute goods has a negative value.

(ii) Price Elasticity of Demand (PED) tends to be more elastic in the long-run than in the short-run.

(iii) When demand for a good is price inelastic, a reduction in price will increase total sales revenue.

(iv) Income elasticity of demand (YED) for luxury goods is positive.

(8 marks)

Total: 20 Marks

2)

(a)

I. Outline why 'choice' is fundamental to the study of economics. (2 marks)

II. Explain the main assumptions underlying the theory of imperfect competition

(4 marks)

(b) Explain, with the aid of a diagram, the long run equilibrium of a firm in imperfect competition. (6 marks)

(c) "A few large supermarkets dominate the Sri Lankan market at present." Suggest a market structure which most closely reflects this situation. Explain your answer. (8 marks)

Total: 20 Marks

3)

(a) Explain what is meant by a surplus on the BOP (Balance of Payment) current account ?
Can a surplus on the BOP current account pose problems for an economy? Explain your answer. (6 Marks)

(b) Explain the economic effects of rising interest rates on an economy (6 marks)

(c) Explain reasons countries impose barriers to free trade (8 marks)

Total: 20 Marks

4)

(a) What do you mean by Business Environment? Why it is important for business enterprises to understand their Environment ? Explain Briefly. (6 marks)

(b) Explain with examples , the various dimensions of business environment (6 marks)

(c) Social Responsibility has been one of the upcoming trends in today's business environment . Briefly explain what is meant by social responsibility and arguments for and against social responsibility in present business environment (8 marks)

Total: 20 Marks

END OF QUESTION PAPER