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Serial No.....

## Society of Certified Management Accountants of Sri Lanka

### Technician Stage March 2007 Examination

Examination Date : 18<sup>th</sup> March 2007

Number of Pages : 11

Examination Time: 1.30p.m.-4.30p.m.

Number of Questions: 09

#### Instructions to the Candidates

1. Time allowed is **three (3)** hours.
2. Answer **all** questions in **Part I** and **two (2) questions** from **Section A** and two **(2) questions** from **Section B** in **part II**
3. Answers should be entirely in the **English language**.

<u>Subject</u>	<u>Subject Code</u>
<b>Economics &amp; International Business</b>	<b>(ECN)</b>

#### PART I

#### Question No .01 (20 Marks)

- (1) Many countries are moving from planned to market economic systems.

Which of the following would they reduce?

- A Individual ownership of land
- B Private industry
- C Price control
- D The profit motive

- (2) In a recent advertisement, an electricity company in the UK stated:

'We aim to be a more caring organisation. Additional specialist staff will be employed to provide a free advice service and we will increase our use of modern technology to benefit our customers'

As a result of this policy, what will be used more?

- A Capital only
- B Enterprise only
- C Labour and capital
- D Land only

- (3) Which of the following describes the opportunity cost to a Society building a new school?
- A The closure of the school it replaces
  - B The extra cost of providing equipment and teachers to run the school efficiently
  - C The goods and services that could have been produced instead of the school
  - D The increase in taxation to pay for the school
- (4) What is **not** an example of a factor of production in a hairdressing business?
- A A haircut
  - B A hairdresser
  - C A hairdressing shop
  - D A hair-drier
- (5) Multi – nationals account for an increasing proportion of world output. What distinguishes a multi – national company from other companies?
- A It benefits from economies of scale
  - B It imports parts made by foreign firms
  - C It produces in more than one country
  - D It sells its products in more than one country
- (6) What is the major disadvantage of the sole trader or sole proprietor, due to the type of business?
- A Additional labour cannot be employed
  - B Banks will not lend to this form of business
  - C Output may be sold only locally, not nationally
  - D The owner is personally liable for any debts.
- (7) Which trade union action is most likely to have harmful effects on the productivity of a firm?
- A Acceptance of new technology
  - B Agreement to a bonus system
  - C Opposition to planned redundancies
  - D Participation in a profit-sharing scheme
- (8) The table shows the structure of production in Zimbabwe in 1974 and 1984.

	% of GDP	
	1974	1984
Agriculture	17.6	12.5
Mining and quarrying	7.6	5.7
Manufacturing	23.5	27.0
Education and health	4.9	9.6
Distribution and other services	46.4	45.2

What do these statistics show?

- A Primary production decreased its share of the total
- B Secondary production decreased its share of the total
- C Tertiary production decreased its share of the total
- D The primary sector produced over half of total output

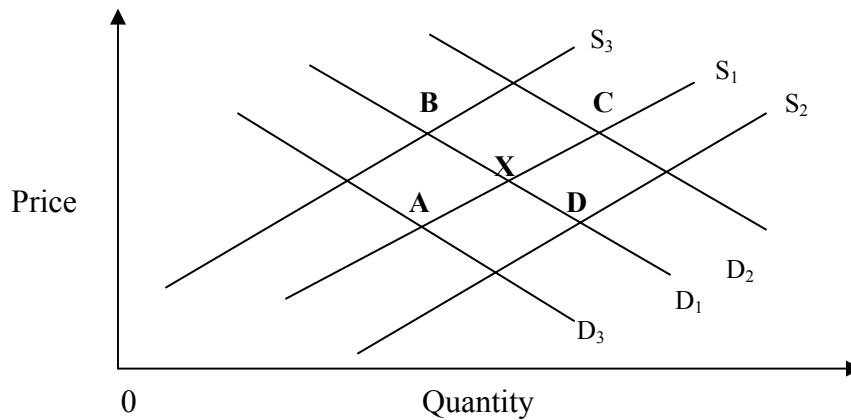
(9) Which function is performed by a central bank but not a commercial bank?

- A It controls the money supply
- B It deals in foreign exchange
- C It gives financial advice
- D It holds deposits

(10) The diagram shows the demand for and supply of a product. The original equilibrium is at X.

Which point indicates the new equilibrium position if there is an increase in the price of a close substitute for the commodity while other things remain the same?

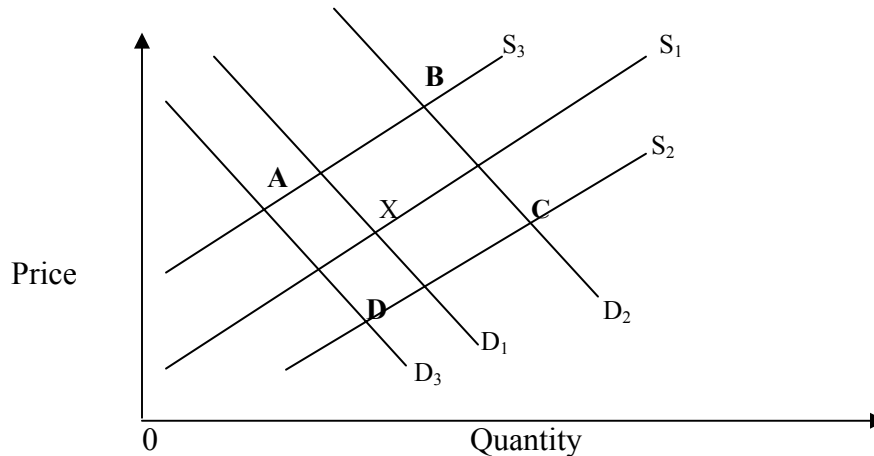
A or B or C or D



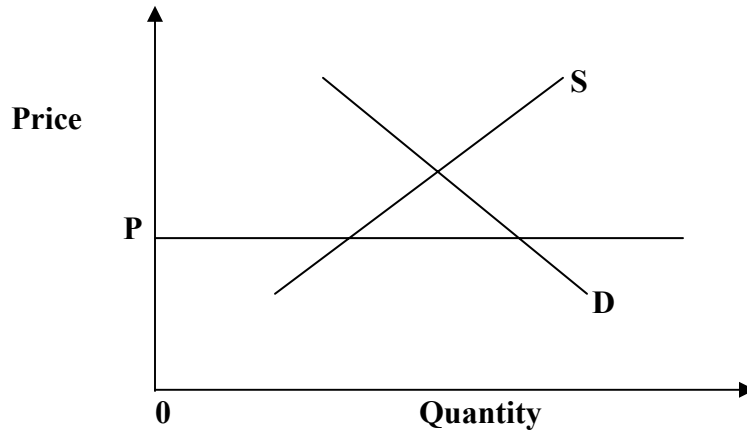
(11) The diagram shows the demand for and supply of a firm's product. The original equilibrium is at X.

The firm pays for a successful advertising campaign.

What is the new equilibrium? A or B or C or D



(12) The diagram shows the demand for and the supply of bread.



A maximum price **OP** per unit of bread is established by the government.

What is likely to be the immediate result of this measure?

- A A movement of the demand curve to the left
- B A movement of the supply curve to the right
- C A shortage of bread
- D A surplus of bread

(13) In many countries at peak periods, extra staff are employed by the postal service and additional collections of post are made to clear the large amount of mail.

What happens to the Demand and Supply curves for postal services during these peak periods?

- | <b>Demand curve</b> | <b>Supply curve</b> |
|---------------------|---------------------|
| A Moves to left     | moves to left       |
| B Moves to left     | moves the same      |
| C Moves to right    | moves to right      |
| D Stays the same    | moves to right      |

(14) When the price of a good doubles the demand falls by more than half, and the revenue received by the seller falls.

What does this suggest about the good?

- A It has substitutes.
- B It is a necessity.
- C It is perfectly elastic in demand.
- D It is infixed supply.

- (15) A UK Dutch owned Oil Company owns subsidiary companies in 84 countries. Their activities throughout the world include oil, chemicals, microelectronics and mining.  
What is described above?
- A Backward vertical growth
  - B Horizontal growth
  - C A multi – national conglomerate
  - D A public sector enterprise
- (16) Which are **not** directly negotiated by trade unions?
- A Productivity agreements
  - B Shareholders, dividends
  - C Worker redundancies
  - D Working conditions
- (17) If the government privatises a state-owned industry by selling it to thousands of different shareholders, its status will change from
- A Private limited company to public limited company.
  - B Public limited company to private limited company.
  - C Public corporation to private limited company.
  - D Public corporation to public limited company.
- (18) Increasing output of one good results in the reduced production of another good.  
What economic concept does this represent?
- A A market economy
  - B Comparative advantage
  - C Medium of exchange
  - D Opportunity cost
- (19) What is an example of the factor of production in an enterprise?
- A A shop assistant
  - B A shop manager
  - C A shop owner
  - D A shopping centre
- (20) It was suggested at a conference on scarce resources in Stockholm in 1995, that the supply and price of water should be set by the price mechanism, and not by the public sector.  
Who determines the price of water when the price mechanism operates?
- A The consumers and the water companies
  - B The government
  - C The water companies alone
  - D The water consumers alone

(21) What is the most likely outcome of increased specialization in water bottling plant?

- A Higher costs per bottle
- B Higher wage rates
- C Increased job satisfaction
- D Increased output of bottles of water

(22) What is most likely to be the main function of a central bank?

- A Controlling the money supply
- B Investing in commerce and industry
- C Issuing and processing credit cards
- D Making loans to individuals

(23) What is an effect of trade protection?

- A It encourages home industries to be more efficient.
- B It increases the demand for home – produced goods.
- C It reduces the price of home – produced goods.
- D It reduces the price of imports.

(24) External benefits are

- A Private benefits minus private costs.
- B Private benefits plus social benefits.
- C Social benefits minus private benefits.
- D Social benefits plus social costs.

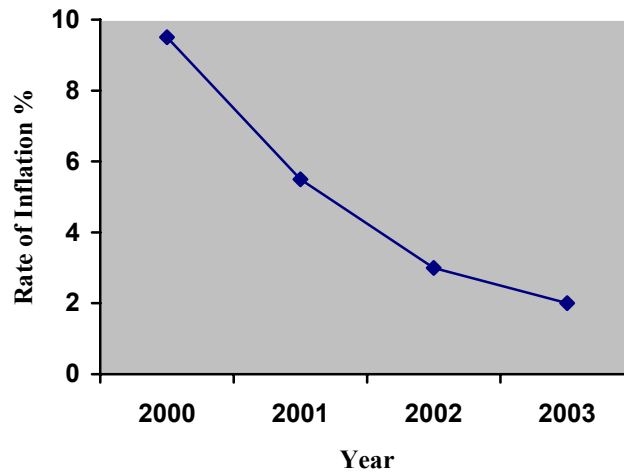
(25) What encourages international specialization?

- A Diseconomies of scale
- B Foreign exchange
- C Free trade
- D Quotas

(26) What would be most likely to encourage saving?

- A A rise in the exchange rate
- B A rise in the goods and services tax rate
- C A rise in the income tax rate
- D A rise in the interest rate

- (27) The diagram shows the annual rate of inflation for a country between 2000 and 2003.



Which statement is true of the period 2000 to 2003?

- A The cost of living fell.
  - B The price level rose.
  - C The retail price index fell.
  - D The value of money rose.
- (28) Which of the following would cause a Favourable change in the UK trade services (invisible) account?
- A A Malaysian company increases its exports to the UK.
  - B A Japanese company invests in a subsidiary in the UK.
  - C A large UK company increases its exports of goods.
  - D A UK company wins a contract to transport South African exports.
- (29) ‘ Studies have indicated that Africa’s economy needs to grow by 7%’.

What is most likely to happen if this occurs?

- A Falling GDP per head
  - B Falling wages
  - C Increased employment
  - D Increased tax rate
- (30) ‘ A tax is levied upon the net value added, at each stage of production for certain goods and services’.

Which type of tax is this?

- A Capital gains
- B Direct
- C Indirect
- D Profits

(31) Which of the following is **not** a usual aim of a government?

- A Economic growth
- B Full employment
- C Inequality of incomes
- D Price stability

(32) Zambia has become one of the most attractive countries for international investors as a result of its policy of selling 130 of the 150 state-owned industries back to the private sector.

As a result of this policy what is likely to increase and what is likely to decrease in Zambia in the short run?

	<b>increase</b>	<b>decrease</b>
<b>A</b>	the role of the market	government borrowing
<b>B</b>	economic growth	multi-national companies
<b>C</b>	government borrowing	economic growth
<b>D</b>	multi-national companies	the role of the market

(33) The table gives information on the value of £1 sterling in US dollars (the exchange rate)

<b>year</b>	<b>US\$</b>
1994	1.54
1995	1.61
1996	1.64
1997	1.69

What is most likely to happen as a result of the change in the value of the pound from 1994 to 1997?

- A An improvement in the UK's balance of payments current account
- B Increased prices of imports into the UK from the USA
- C More British tourists taking holidays in the USA
- D More employment in UK export industries

(34) 'In 1999 the GDP of the USA grew in real terms at an annual rate of 4.5%. However, the GDP in Germany in real terms grew at only 2% per annum'.

Which conclusion may be drawn from these statements?

- A Prices rose in both the USA and Germany.
- B The figures have been adjusted to allow for inflation.
- C The standard of living was higher in the USA than in Germany.
- D Unemployment was falling in both the USA and Germany.

- (35) A country has a rapidly increasing population because of a high birth rate. What is most likely to result?
- A An aging population
  - B An increase in productivity in the country
  - C An increase in the dependent population
  - D A reduction in unemployment
- (36) What most accurately measures a country's standard of living?
- A The balance of payments
  - B The exchange rate
  - C The gross domestic product per head
  - D The rate of inflation
- (37) In some places criminals have frightened away tourists. To give tourists confidence, the governments have increased the number of police.
- What is likely to happen as a result of such action by governments?
- A Overseas earnings fall.
  - B Public expenditure increases.
  - C Taxes fall.
  - D Unemployment increases.
- (38) Which of the following is an invisible export of the UK?
- A A Japanese citizen buys a car made in the UK.
  - B A Japanese tourist spends money in the UK.
  - C A travel agent in the UK arranges a holiday in Canada for tourists From the UK.
  - D A UK company buys insurance from a French company.
- (39) Which situation would definitely cause a fall in real incomes?

	<b>Price level</b>	<b>Money income level</b>
<b>A</b>	falls	unchanged
<b>B</b>	falls	rises
<b>C</b>	rises	unchanged
<b>D</b>	rises	rises

- (40) Which type of unemployment occurs when the total demand for goods and services in the economy falls?
- A Cyclical
  - B Frictional
  - C Seasonal
  - D Structural

**(40 x ½ Marks = 20 Marks)**  
End of Part I

## **PART II**

### **Section A**

**Answer any 2 questions**

#### **Question No. 02 (20 Marks)**

“The fundamental economic problems are the same. What differs are the solutions”.

- (a) Describe the fundamental economic problems. **(10 Marks)**
  - (b) Describe how the two main economic systems attempt to solve these problems. **(10 Marks)**
- (Total 20 Marks)**

#### **Question No. 03 (20 Marks)**

- (a) The law of Demand states that at a high price less goods are bought and at a low price more goods are bought. Assuming that all “other factors” remain constant, describe five of the “other factors”. **(10 Marks)**
  - (b) Prepare a demand schedule and draw demand curve(s). **(10 Marks)**
- (Total 20 Marks)**

#### **Question No. 04 (20 Marks)**

- (a) State four different forms of market structures. **(4 Marks)**
  - (b) Describe the main characteristics of a Perfectly Competitive Market. **(16 Marks)**
- (Total 20 Marks)**

#### **Question No. 05 (20 Marks)**

- (a) What are the main functions of a trade union? **(8 Marks)**
  - (b) Why do different workers get different wages? **(6 Marks)**
  - (c) What factors will help a worker to decide in selecting a suitable job? **(6 Marks)**
- (Total 20 Marks)**

End of Section A

## Section B

Answer any 2 questions

### **Question No. 06 (20 Marks)**

- (a) Describe four main expenditure items of a government. **(8 Marks)**
  - (b) What do you understand by “tax incidence”? **(4 Marks)**
  - (c) Describe the main sources of government revenue. **(8 marks)**
- (Total 20 Marks)**

### **Question No. 07 (20 Marks)**

- (a) Draw the circular flow of Income, in a two sector economy. **(8Marks)**
  - (b) Explain the differences between the following concepts:
    - 1. GDP and GNP
    - 2. GDP and NNP
    - 3. GNP at factor prices and GNP at market prices. **(4 x 3 = 12 Marks)**
- (Total 20 Marks)**

### **Question No. 08 (20 Marks)**

- (a) “Inflation is purely a monetary feature”. Explain this statement. **(6 Marks)**
  - (b) What are the main causes of Inflation? **(3 x 3 =9 Marks)**
  - (c) What is Stagflation? **(5 Marks)**
- (Total 20 Marks)**

### **Question No. 09 (20 Marks)**

- (a) Where will the following be entered in a balance of payments statement?
    - 1. Oil imports
    - 2. Profits, dividends and interest.
    - 3. Japanese company investing in the U.K. **(6 Marks)**
  - (b) How will a balance of payments deficit be remedied? **(14 Marks)**
- (Total 20 Marks)**

End of Section B  
End of Part II

*End of Question Paper*