



Society of Certified Management Accountants of Sri Lanka
Technician Stage
Pilot Paper

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**.

Subject	Subject Code
Economics & International Business	(ECN)

PART I

Question No .01 (20 Marks)

1. Which of the following is an example of the factor of production known as capital?
 - A) A truck
 - B) A truck driver
 - C) A truck driver's savings
 - D) A truck driver's wage

2. Which action is evidence that a country is a planned economy?
 - A) A central bank plans an interest rate change
 - B) A government plans the allocation of all resources
 - C) A local authority plans a new library
 - D) A ministry of finance plans the annual budget

3. Some US firms set up production in developing countries to take advantage of cheap labour. What might encourage this trend?
 - A) Difficulties in managing multi- national companies
 - B) High transport cost for the finished product
 - C) Occupational immobility of labour
 - D) The existence of free trade

4. A Farmer buys a more fertile field. As a result he is able to produce the same output as before but with fewer workers and less equipment.

This is a substitution in which

- A) Capital replaces labour and land.
 - B) Labour replaces capital and land.
 - C) Land replaces capital and enterprise.
 - D) Land replaces capital and labour.
5. Which statement best explains why drought is an economic problem?
- A) Drought cannot be controlled.
 - B) Rainfall is unreliable.
 - C) The effects of drought involve the government.
 - D) Water is a scarce good.
6. What describes a regressive tax?
- A) It is paid by a higher proportion of high income earners
 - B) It is paid by a higher proportion of low income earners.
 - C) It takes a higher proportion from high incomes.
 - D) It takes a higher proportion from low incomes.
7. Which type of government policy would include the control of monopolies?
- A) competition policy
 - B) employment policy
 - C) fiscal policy
 - D) monetary policy
8. What is the most likely result of increased wages in the UK?
- A) Average costs of production will decrease in the UK.
 - B) Output of UK industries will increase in the UK
 - C) Productivity will increase in the UK
 - D) The international competitiveness of UK industries will decrease.

9. The table shows the costs of a firm

Output	Variable costs (\$)	Total cost(\$)
0	0	40
1	10	50
2	16	56

What is the average fixed cost when two units are produced?

- A) \$6
 - B) \$8
 - C) \$20
 - D) \$28
10. Why may a government discourage monopolies?
- A) They can achieve low average costs.
 - B) They can compete against foreign firms.
 - C) They can introduce new technology.
 - D) They can make excessive profits.

11. Which of the following is **not** included in public expenditure?
- A) Capital spending by companies
 - B) Interest payments on government borrowing
 - C) Investment in defence by the central government
 - D) Subsidies to bus companies from local authorities
12. When is there budget surplus?
- A) When government expenditure is greater than government revenue.
 - B) When government revenue is greater than government expenditure.
 - C) When imports are greater than exports.
 - D) When exports are greater than imports.
13. Which policy would be most likely to increase the number of people in employment?
- A) Introducing a minimum wage
 - B) Introducing a sales tax
 - C) Reducing income tax
 - D) Reducing tariffs on imports

14. The table shows the GDP and population of countries in 1992

country	GDP	Population
Ethiopia	\$ 6,257 million	55 million
Poland	\$83,823 million	38 million
New Zealand	\$ 41,304 million	3.4 million

What does the table show?

- A) New Zealand had the highest standard of living.
 - B) Poland had a standard of living about twice as high as New Zealand.
 - C) Population does not affect the standard of living.
 - D) The population must grow for a country to increase its standard of living.
15. A government must decide whether to build a new road. The road would bring work to a town, but will destroy part of a forest.

Who is most likely to oppose this?

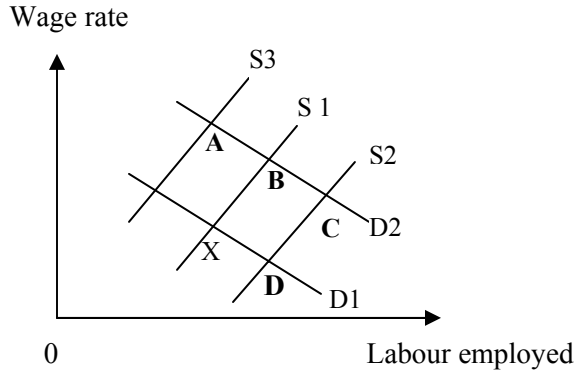
- A) Conservationists.
 - B) Road builders.
 - C) Suppliers of roadstone.
 - D) The town's unemployed.
16. Europe reduces trade barriers to increase imports of clothing and food from Asia and Africa.

What will happen as a result?

- A) greater choice for European consumers
- B) increased income for European producers
- C) lower unemployment in the European clothing industry
- D) slower economic growth in Africa

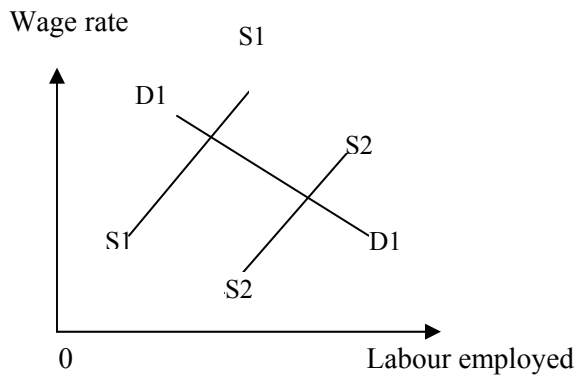
17. What is likely to be one effect if the government places a tariff on the importing of rice when demand is inelastic?
- A) A fall in the supply of domestic rice.
 - B) An increase in the demand for rice
 - C) An increase in the government's revenue
 - D) An increase in the supply of imported rice.
18. A student records her income and spending for the past month. What function is money performing in this situation?
- A) medium of exchange
 - B) standard of deferred payments
 - C) store of value
 - D) unit of account
19. A claim for higher wages by a trade union would **not** be helped by an increase in
- A) consumer's demand
 - B) labour productivity
 - C) profit
 - D) unemployment
20. What is meant by 'the separation of ownership and control' in business organisation?
- A) Increased control by workforce
 - B) Government intervention in business organisation.
 - C) The employment of managers who are not shareholders
 - D) The expansion of private enterprise
21. Which organisations controls the banking system in most countries?
- A) Central Bank
 - B) Commercial Bank
 - C) Investment Bank
 - D) World Bank
22. Many countries have been extending the role of market forces in their economies. What is intended to result from this action?
- A) Greater economic efficiency
 - B) Greater equality of income
 - C) Less specialisation
 - D) More government control
23. Point X in the diagram shows the original equilibrium in the market for television film crews.
- There is an increase in the number of television channels and, therefore, in the number of jobs available.

What is the new equilibrium point?



- A) C
- B) A
- C) B
- D) D

24. The diagram shows the demand for and supply of labour



What will cause a shift in the supply of labour from S_1S_1 to S_2S_2 ?

- A) lowering the age of retirement
- B) reducing training periods
- C) workers being less willing to work overtime
- D) workers preferring leisure activities to work

25. What is the major disadvantage of the sole trader or proprietor as a 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.

26. 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

27. 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.
28. 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
29. A UK and 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
30. Which are **not** directly negotiated by trade unions?
- A) Productivity agreements.
 - B) Shareholders' dividends
 - C) Worker redundancies
 - D) Working conditions
31. 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

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

Year	US \$
1994	1.54
1995	1.61
1996	1.64
1997	1.69

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

- A) An improvement in the UK's balance of payments on 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.
33. "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".

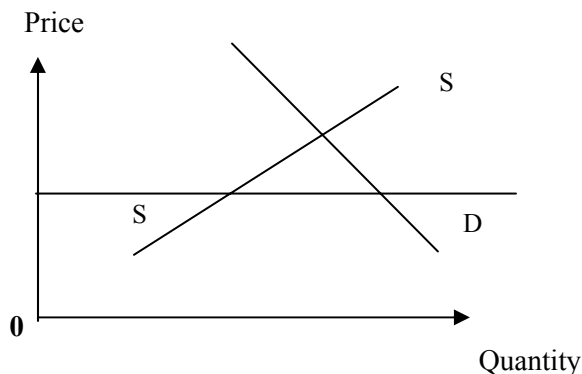
Which conclusion may be drawn from these statements?

- 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 failing in both the USA and Germany.
34. A country has a rapidly increasing population because of a high birth rate. What is most likely to result?
- A) An ageing population
 B) An increase in productivity in the country
 C) An increase in the dependent population
 D) A reduction in unemployment

35. What most accurately measure a country's standard of living?

- A) The balance of payment
 B) The exchange rate
 C) The gross domestic product per head.
 D) The rate of inflation

36. 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

37. In many countries at peak periods, extra staffs 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 periods?

- | | <u>Demand Curve</u> | <u>supply curve</u> |
|----|---------------------|---------------------|
| A) | moves to left | moves to left |
| B) | moves to left | stays the same |
| C) | moves to right | moves to right |
| D) | stays the same | moves to right |

38. When a 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 in fixed supply

39. The data relates to Malaysia's trade performance for 1998 and 1999 valued in US \$ billions.

	1998	1999
Exports of goods	72.0	72.5
Imports of goods	57.0	60.5
Balance on services	-4.3	-5.3
Net transfers	-1.5	-1.6

What happened to Malaysia's visible trade balance and current account balance between the two years?

	Visible trade balance	Current account balance
A	Improved	Improved
B	Improved	Worsened
C	Worsened	Improved
D	Worsened	Worsened

40. A factor working at full capacity is producing tennis racquets and golf clubs. The management decides to produce fewer racquets and more clubs because of an increase in demand for golf clubs.

What is the opportunity cost of producing more golf clubs?

- A) The cost of retraining some workers to make golf clubs
- B) The cost of transporting and selling the extra golf club produced.
- C) The materials bought to make extra golf club.
- D) The tennis racquets that will not now be produced.

(40 x ½ Marks = 20 Marks)

End of Part I

PART II

Section A- Answer any 2 questions

Question No. 01 (20 Marks)

- a) Describe the fundamental problems of economics. **(6 Marks)**
 - b) What do you understand by scarcity and choice **(6 Marks)**
 - c) Explain how a free market economic system solves these problems **(8 Marks)**
- (Total 20 Marks)**

Question No. 02 (20 Marks)

- a) What is the Law of Demand? Explain it with a demand schedule and a diagram **(6 Marks)**
 - b) What do you understand by a movement on the same demand curve and a shift of the demand curve? **(8 Marks)**
 - c) Explain 3 of the other factors that effect demand. **(6 Marks)**
- (Total 20 Marks)**

Question No. 03 (20 Marks)

- a) Describe the main features of a Monopoly. **(10 Marks)**
 - b) Discuss three main barriers that will help to create a Monopoly. **(10 Marks)**
- (Total 20 Marks)**

Question No. 04 (20 Marks)

- a) Name the four (4) factors of Production. **(2 marks)**
 - b) Why are there wage differentials? Give examples? **(8 Marks)**
 - c) What important functions do trade unions perform? **(10 marks)**
- (Total 20 Marks)**

End of Section A

Section B

Answer any 2 questions

Question No. 05 (20 Marks)

- a) What do you mean by tax incidence? **(4 Marks)**
 - b) Describe the two main types of taxes with example? **(6 Marks)**
 - c) Describe how a government spends its revenue. **(10 marks)**
- (Total 20 Marks)**

Question No. 06 (20 Marks)

- a) Define the term National Income **(4 Marks)**
 - b) Discuss the main reasons for compiling national income statistics **(10 Marks)**
 - c) Give 3 problems that arise when calculating the National Income **(6 Marks)**
- (Total 20 Marks)**

Question No. 07 (20 Marks)

- a) What does the RPI measure? **(2 Marks)**
 - b) Describe 3 main causes of inflation **(10 Marks)**
 - c) Explain how inflation becomes a problem to a government. **(8 Marks)**
- (Total 20 Marks)**

Question No. 08 (20 Marks)

- a) Describe 3 types of trade restrictions. **(6 Marks)**
 - b) How will trade restrictions affect a country like Sri Lanka? **(8 Marks)**
 - c) Give three advantages of free trade **(6 Marks)**
- (Total 20 Marks)**

End of Section B
End of Part II
End of Question Paper
