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Serial No.....

Society of Certified Management Accountants of Sri Lanka

Technician Stage March 2008 Examination

Examination Date : 2nd March 2008

Number of Pages : 06

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>
Economics & International Business	(ECN)

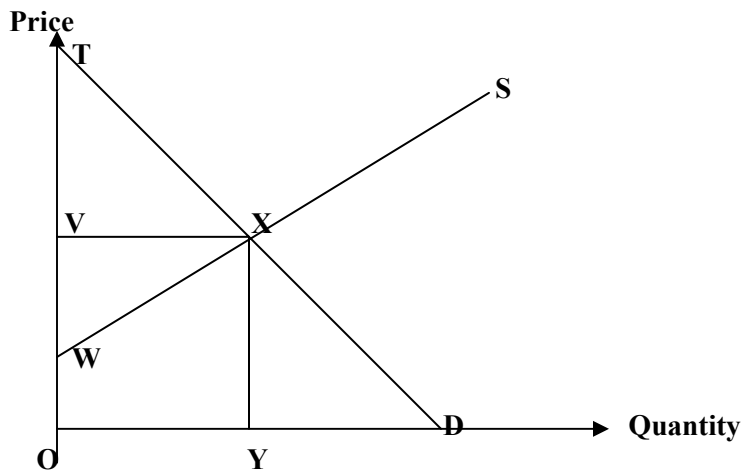
PART I

Answer all parts of Question No.1. Select the most correct answer to each question. Write the number of the selected answer in your answer booklet with the English letter. **E.g. (1) A, (2) B etc...**

Question No.1 (20 Marks)

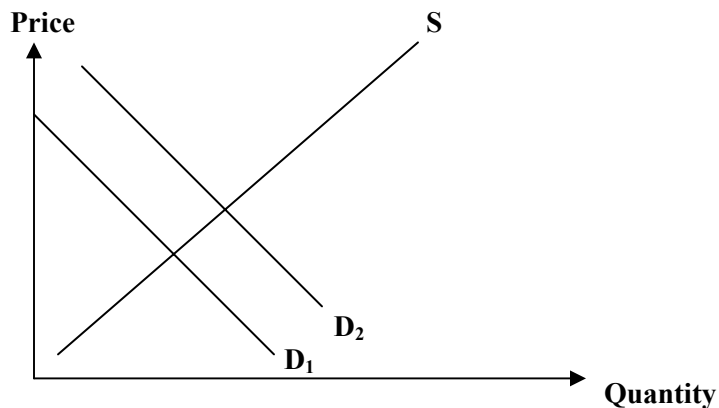
- (1) Which one of the following is considered an advantage of the market economic system?
 - A Aims for equality of income.
 - B It gives an incentive to produce.
 - C Ensures the provision of defense, law and order.
 - D Reduces pollution and congestion.
- (2) Long queues for consumer goods were often experienced in a planned economy. Which one of the following refers to this statement?
 - A The distribution of goods was inefficient.
 - B The factors of production were able to move freely.
 - C The output decisions were taken to maximize profits.
 - D The needs of the consumers determined production.
- (3) Which one of the following is likely to be the most suitable form of business organization for a group of four doctors?
 - A Partnership
 - B Private-company
 - C Public-company
 - D Public corporation
- (4) Mr. Mason bought shares in a computer company producing computers throughout the world. Mr. Deen owns and runs a grocery store. Which one of the following is **not** represented by the above businesses?
 - A Co-operative
 - B Multi national company
 - C Public company
 - D Sole proprietor

- (5) Trade unions can be very effective in wage negotiations for their members when there is:
- A A recession
 - B An economic boom
 - C A period of declining productivity
 - D A period of rising unemployment
- (6) Of the following which function that the Central Bank and Commercial Banks do not perform in common.
- A Controlling monetary policy
 - B Acting as banker's bank
 - C Dealing with foreign exchange
 - D Supervising the banking activities
- (7) The diagram shows a market for wheat that is in equilibrium.



Which area represents the total revenue for wheat farmers?

- A OTXY
 - B OWXD
 - C OVXY
 - D OWXY
- (8) When a government taxes the production of cars, which one of the following is likely to decrease?
- A The cost of supplying cars
 - B The price of cars
 - C The revenue of the government
 - D The supply of cars at every price
- (9) Which of the following will cause the demand for bread to change from D1 to D2?

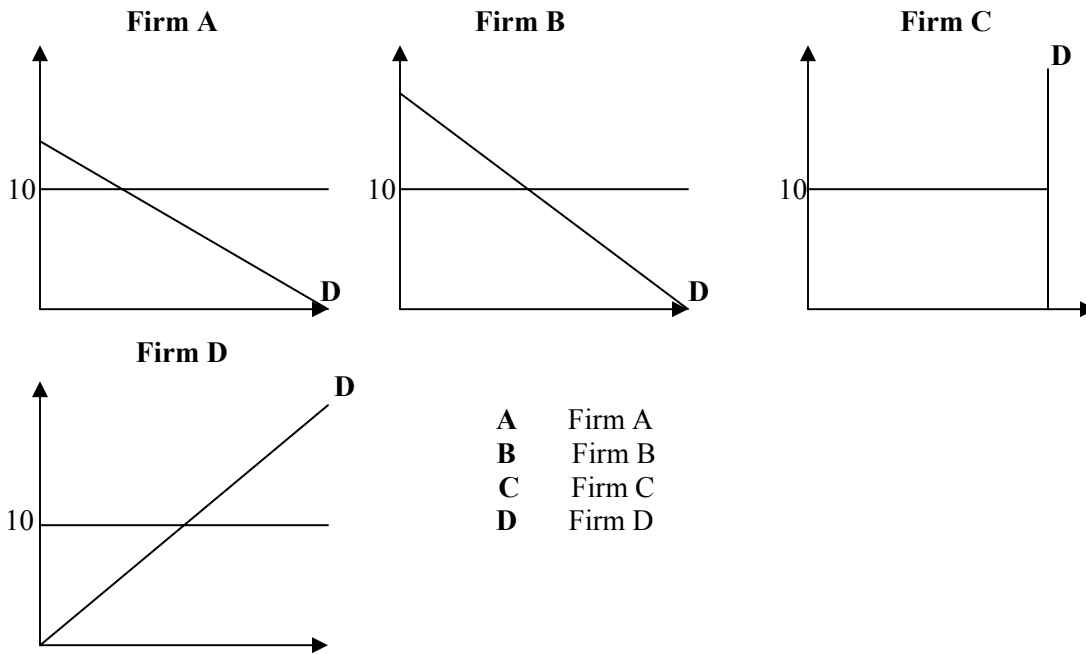


- A A fall in the cost of producing bread
- B A fall in the price of an alternative to bread
- C A newspaper report that eating bread is healthy
- D A rise in the price of a complement to bread

(10) In a competitive industry prices tend to lower than in a monopoly, which one of the following refers to this statement.

- A A monopoly has less influence on the market
- B Competitive industry has more economies of scale
- C New firms are free to enter the competitive industry
- D Profits are lower in a monopoly

(11) The following graphs are drawn to the same scale; show the demand curves of four firms. The market price is \$10. The price then falls to \$8, which firm corresponds to this statement.



- A Firm A
- B Firm B
- C Firm C
- D Firm D

(12) Which combination is most likely to result in lower rates of pay?

	Supply	Productivity
A	Falls	Falls
B	Falls	Rises
C	Rises	Falls
D	Rises	Rises

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

(13) A large clothing manufacturer expanded by acquiring retail outlets. Which one of the following is an example of this acquiring?

- A Diversification
- B External economies of scale
- C Horizontal integration
- D Vertical integration

- (14) A newspaper reports that there has been an economic growth in country. What does this mean to an economist?
- A Production has increased
 - B Population has increased
 - C Saving has increased
 - D Taxation has increased
- (15) A country is undergoing a period of inflation. Which one of the following must be increasing to that effect?
- A Wage levels
 - B The output of goods and services
 - C The amount of money spent on goods and services.
 - D The price of goods and services
- (16) If the birth rate decreases; which one of the following can lead to an increase in the country's population at the same time?
- A A fall in the fertility rate
 - B A fall in infant mortality rate
 - C Positive net migration
 - D Negative net migration
- (17) Which one of the following is an advantage of international specialization?
- A Choice is limited
 - B Countries become too dependant
 - C Efficient resource utilization
 - D Decrease in transport costs
- (18) To reduce external costs which one of the following must be taxed
- A Bicycles
 - B Bus fares
 - C Cars
 - D Trains
- (19) Demand management policies have been replaced by supply-side policies which include
- A Aggregate demand
 - B Deficit financing
 - C Sound financing
 - D Inflation
- (20) Natural rate of Inflation will remain unchanged.
- A With inflation
 - B With the economy is in equilibrium
 - C With the Phillip's curve
 - D With the aggregate demand

(20 x 1 Mark = 20 Marks)

End of Part I

PART II

Section A

Answer any 2 questions

Question No.2 (20 Marks)

- (a) To every economy the basic problems are the same; what differs are the solutions to the problems.
How are these problems solved in a Mixed Economy? **(10 Marks)**
- (b) Why did the Communist economies collapse and new economic policies had to be introduced? **(10 Marks)**
- (Total 20 Marks)**

Question No.3 (20 Marks)

- (a) What is a disequilibrium price? **(5 Marks)**
- (b) How does the Price Mechanism function in a free market economy? **(10 Marks)**
- (c) What is the difference between a movement on the same demand curve or a shift of the demand curve? **(5 Marks)**
- (Total 20 Marks)**

Question No.4 (20 Marks)

- (a) Define income elasticity of demand. **(4 Marks)**
- (b) Calculate the price elasticity of demand when the price falls from Rs.5 to Rs.3 and the demand changes from 15 to 30 units. **(6 Marks)**
- (c) Describe the factors that will affect the elasticity of demand. **(10 Marks)**
- (Total 20 Marks)**

Question No.5 (20 Marks)

- (a) Describe the functions of a Central Bank. **(10 Marks)**
- (b) What are the methods of control used by a Central Bank to control inflation? **(5 Marks)**
- (c) Why is it necessary to control inflation? **(5 Marks)**
- (Total 20 Marks)**
End of Section A

Section B

Answer any 2 questions

Question No.6 (20 Marks)

- (a) What is privatization? **(4 Marks)**
(b) Why did most countries follow a policy of privatization? **(10 Marks)**
(c) What are the benefits of state enterprise? **(6 Marks)**
(Total 20 Marks)

Question No.7 (20 Marks)

- (a) What is globalization? **(4 Marks)**
(b) What are the benefits to a country from Multinationals? **(8 Marks)**
(c) How will Multinationals be a hindrance to a country. **(4 Marks)**
(Total 20 Marks)

Question No.8 (20 Marks)

- (a) Draw and describe the circular flow of national income. **(8 Marks)**
(b) What are the advantages of calculating National Income data? **(8 Marks)**
(c) State four problems that are faced when calculating the National Income. **(4 Marks)**
(Total 20 Marks)

Question No.9 (20 Marks)

- (a) Describe the main sources of finance to a government. **(10 Marks)**
(b) Why is a budget so important to a government? **(4 Marks)**
(c) Describe the main items of expenditure to a government. **(6 Marks)**
(Total 20 Marks)

End of Section B

End of Part II

End of Question Paper
