



Society of Certified Management Accountants of Sri Lanka

**Technician Stage
March 2009 Examination**

Examination Date : 22nd March 2009
Examination Time: 1.30p.m.- 4.30p.m.

Number of Pages : 05
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.**

Subject	Subject Code
Economics & International Business	(ECN / 505)

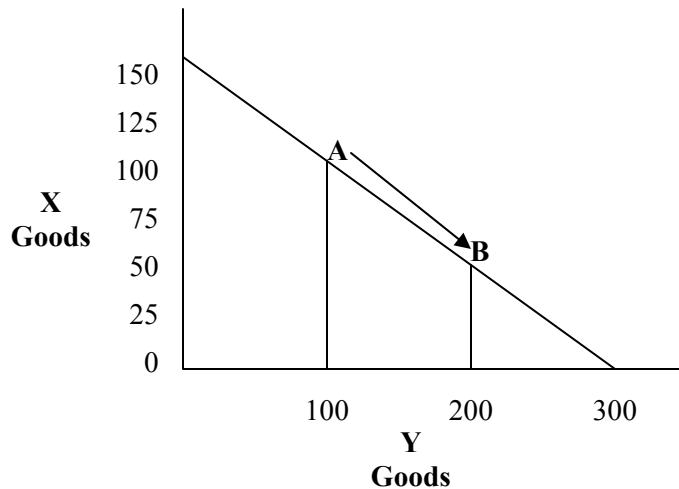
PART I

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) Production Possibility Curve (PPC) can be used to illustrate the concept of:
 - (a) Opportunity cost
 - (b) Equilibrium price
 - (c) Consumer surplus
 - (d) Producer surplus
- (2) What will increase the level of specialization in an economy:
 - (a) Computer manufacturer takes over an advertising company
 - (b) A retail store issues its own credit
 - (c) A travel agency provides transport to the airport
 - (d) A vehicle assembler reduces its range of vehicles
- (3) Bank notes function as money, because:
 - (a) They are durable
 - (b) They are internationally acceptable
 - (c) They count as legal tender
 - (d) They have intrinsic value
- (4) Which one of the following is a positive statement:
 - (a) A capitalist economic system has too many defects
 - (b) The country has an economic growth rate of 55%
 - (c) There is too much poverty in the third world countries
 - (d) It is useful to introduce price control and rationing

- (5) A normative statement is one that shows:
- An accurate date to prove a point
 - Correct facts and figures
 - Somebody's value judgment
 - Proved correct or incorrect statements
- (6) Which one of the following is necessarily a function of an entrepreneur:
- Accepting the risks involved
 - Deciding how much labour should be employed
 - Organizing the factors of production
 - Promoting the sale of the product
- (7) Economic systems differ from country to country, because:
- The problems are different
 - The problems are the same
 - The solutions are different
 - The solutions are the same
- (8) A free market is more likely to encourage development than a planned economy, because:
- Equality of income is encouraged
 - Factors of production would be employed efficiently
 - Government intervention uses taxes and subsidies
 - Social costs are taken into consideration
- (9) An economy can produce either X goods or Y goods or combination of both X goods and Y goods as shown below.



What is the opportunity cost of X in increasing Y from A to B?

- + $\frac{1}{2}$
 - 2
 - + 100
 - 50
- (10) Which one of the following statement about a mixed economy is correct:
- The government employs most primary sector workers
 - The government owns all major secondary sector industries
 - The government owns the transport network
 - The government provides public goods

- (11) Which one of the following that might cause the wages of bus drivers to rise:
- (a) Their productivity rise
 - (b) The number of bus routes falls
 - (c) The number of people making Bus journeys falls
 - (d) The supply of bus drivers falls
- (12) Which one of the following is most likely to happen if a regressive tax replaces a progressive tax:
- (a) The amount of tax paid by richer people increases
 - (b) Income after tax becomes less
 - (c) The majority of people continue to pay the same tax
 - (d) The amount of tax paid by poorer people increases
- (13) Which one of the following is meant by depreciation of the currency:
- (a) A fall in its external value
 - (b) A fall in its internal value
 - (c) A rise in its external value
 - (d) A rise in its internal value
- (14) Which one of the following will result if Europe reduces trade barriers to increase imports of clothing and food items from Asia and Africa:
- (a) Greater choice for European countries
 - (b) Increase income for European producers
 - (c) Lower unemployment in the European clothing industry
 - (d) Slower economic growth
- (15) Which one of the following is a fixed cost of production:
- (a) The rent and rates paid to the factory
 - (b) The cost of using the telephone
 - (c) The interest paid on deposits
 - (d) The money spent on repairs
- (16) Which one of the following suits this Statement Policies to promote economic growth results in inflation:
- (a) They increase competition
 - (b) They increase saving
 - (c) They increase spending
 - (d) They increase unemployment
- (17) Which one of the following might a government do, if it wishes to slow down the rate of growth in the economy:
- (a) Decrease expenditure on defense
 - (b) Decrease taxes on goods and services
 - (c) Increase bank interest rate
 - (d) Decrease direct taxes
- (18) Which one of the following best describes a multinational company:
- (a) A company that is owned by the government
 - (b) A company that has many share holders
 - (c) A company that trades internationally
 - (d) A company that produces more than one commodity

- (19) 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
- (20) Which one of the following promotes international trade:
- (a) International trade fares
 - (b) Protection of trade
 - (c) System of barter
 - (d) The use of money

(20 x 1 Mark = 20 Marks)

End of Part I

PART II

Section A

Answer any 2 questions

Question No. 2 (20 Marks)

- (a) Explain the differences between a market economy and a planned economy. **(10 Marks)**
- (b) Describe how desirable is it for a government to provide all goods and services. **(10 Marks)**
- (Total 20 Marks)**

Question No. 3 (20 Marks)

- (a) Explain how an equilibrium price for a product is determined in the market and how it may change. Illustrate with a diagram. **(10 Marks)**
- (b) Explain excess demand and excess supply, illustrate with a diagrams. **(10 Marks)**
- (Total 20 Marks)**

Question No. 4 (20 Marks)

- (a) Describe the main characteristics of a perfect market. **(10 Marks)**
- (b) Explain how a firm in a perfect market can earn super normal profits in the short term. **(10 Marks)**
- (Total 20 Marks)**

Question No. 5 (20 Marks)

- (a) List the main advantages of specialization and division of labour. **(10 Marks)**
- (b) Explain why sole traders are more popular than other forms of business organizations. **(10 Marks)**
- (Total 20 Marks)**

End of Section A

Section B

Answer any 2 questions

Question No. 6 (20 Marks)

- (a) Explain main types of foreign exchange rates. **(10 Marks)**
- (b) Describe the reasons why the floating exchange rate is more desirable. **(10 Marks)**
(Total 20 Marks)

Question No. 7 (20 Marks)

- (a) A country has a deficit in the current account of the balance of payments. Explain how this can be remedied. **(10 Marks)**
- (b) Describe the structural changes that have taken place in Sri Lanka to bring about a solution to a deficit in the current account of the balance of payments. **(10 Marks)**
(Total 20 Marks)

Question No. 8 (20 Marks)

- (a) Describe the main causes of inflation. **(10 Marks)**
- (b) Explain the measures that could be taken to control inflation. **(10 Marks)**
(Total 20 Marks)

Question No. 9 (20 Marks)

- (a) Explain why all countries aim to achieve economics growth. **(10 Marks)**
- (b) Describe the consequences of economic growth. **(10 Marks)**
(Total 20 Marks)

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