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Serial No.....

Institute of Certified Management Accountants of Sri Lanka

Technician Stage March 2010 Examination

Examination Date : 14th March 2010
Examination Time: 1.30 p.m.- 4.30 p.m.

Number of Pages : 06
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

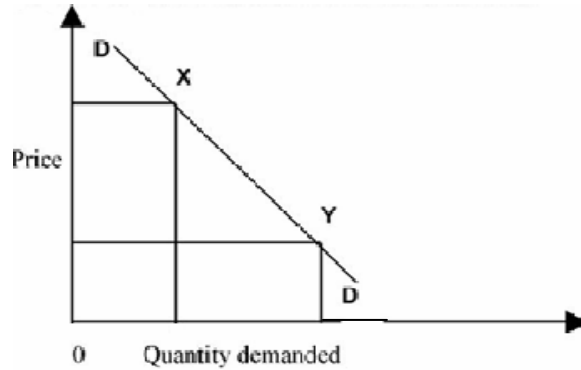
Answer all parts of Question No.1. Select the most correct answer to each question. Write the number of the selected answer in your answer booklet with the English letter. **E.g. (1) (a), (2) (b) etc...**

Question No.1 (20 Marks)

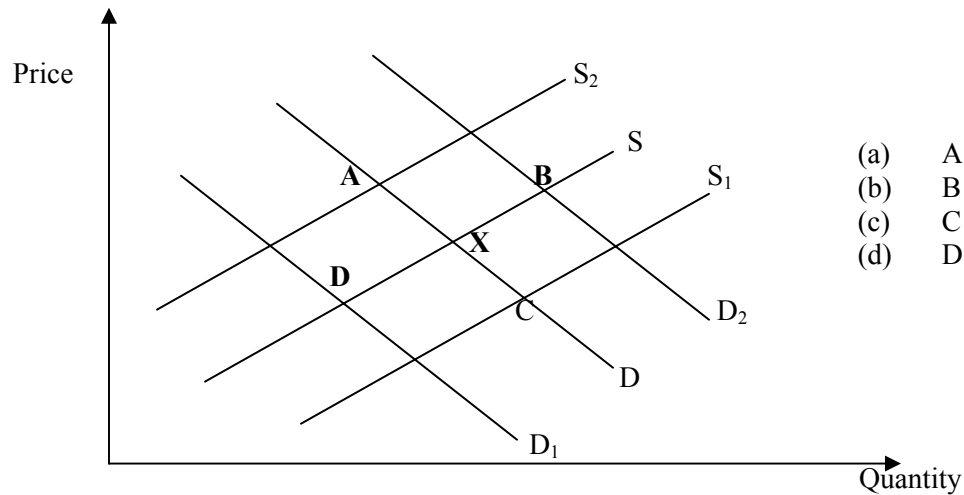
- (1) A person enjoying leisure has now got a job. What is his opportunity cost?
 - (a) The income he earns.
 - (b) The training he receives.
 - (c) Value of leisure lost.
 - (d) Cost of travelling.
- (2) If a hospital is unable to treat all the patients, it is an example of:
 - (a) Limited wants.
 - (b) Excess supply.
 - (c) Scarcity.
 - (d) Unlimited resources.
- (3) A company will be called a multinational if
 - (a) it exports most of its output.
 - (b) it has experienced economies of scale.
 - (c) it has diversified business activities.
 - (d) it has branches in different countries.
- (4) What will help a small retailer to compete with larger stores?
 - (a) Good location.
 - (b) Internal economies of scale.
 - (c) A wide range of products.
 - (d) Advertising.

- (5) If a commercial bank has been given the function of the Central Bank, what will that be?
- Controlling monetary policy.
 - Dealing in foreign exchange.
 - Lending money.
 - Carrying excess liquidity.

- (6) The diagram below shows the demand for a product. What has brought about the movement from X to Y?



- Change in tastes.
 - Fall in the price of chocolate.
 - An increase in income.
 - An advertising campaign.
- (7) The diagram below shows the market for rice. It was at equilibrium at X. After a good harvest of rice what will be the new equilibrium.

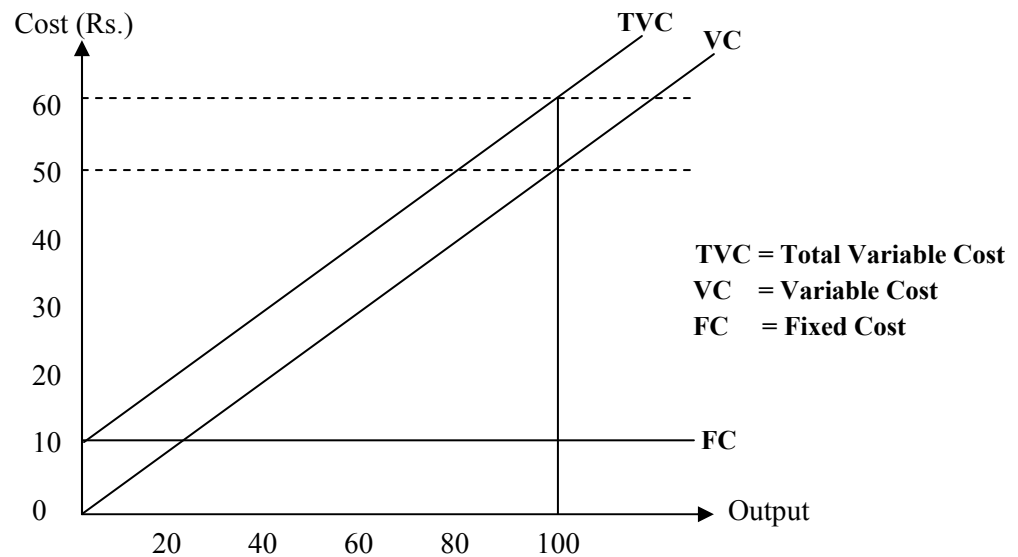


- A
- B
- C
- D

- (8) If there is an increase in interest rates, what will happen to borrowings and savings?

	Savings	Borrowings
A	Falls	Falls
B	Falls	Rises
C	Rises	Falls
D	Rises	Rises

- (9) The diagram shows the cost curves of a firm.



What will be the firm's total variable cost at an output of 100 units?

- (a) \$ 100.
(b) \$ 5,000.
(c) \$ 6,000.
(d) \$ 50,000.
- (10) When the fixed costs are high, a firm cuts down production in the short term by 50% then:
(a) average costs will rise.
(b) fixed costs will fall.
(c) total costs will remain constant.
(d) variable costs will rise.
- (11) From the following select the statement is most unlikely to happen when a firm is in a monopoly position.
(a) face economies of scale.
(b) attract government attention.
(c) charge high prices.
(d) experience competition in the market.
- (12) Which one of the following is likely to be a disadvantage of economic growth?
(a) Government tax revenue falls.
(b) Resources are depleted.
(c) Level of unemployment rises.
(d) The standard of living of the population falls.
- (13) Which one of the statements below describes an indirect tax?
(a) Easy to avoid and differ payment.
(b) Levied on income and cause inflation.
(c) Levied on spending and are regressive.
(d) Progressive and discourage consumption.
- (14) In constructing an index number what is not used
(a) A base year.
(b) The prices of a basket of goods.
(c) The rate of interest.
(d) Weight given to each good.

- (15) The value of Jamaica dollars changed from US \$ 4 to \$ 5, what would be the immediate effect?
- (a) Fewer exports from Jamaica to USA
 - (b) Less investment in Jamaica by US firms.
 - (c) More imports from USA to Jamaica.
 - (d) More tourists from USA visited Jamaica.
- (16) Argentina had a high rate of inflation 400% in 1980s fell to 15% in the 1990s, what would be its effect?
- (a) High prices.
 - (b) Fall in exports.
 - (c) Lower wage rises.
 - (d) Trade deficit.
- (17) An easy and quick way to compare living standards of two countries is to study the
- (a) weekly earnings.
 - (b) consumer expenditure.
 - (c) GNP per Head.
 - (d) national income.
- (18) An external benefit of building a new motor way through the outskirts of a town would be
- (a) an increase of air pollution.
 - (b) reduction in accidents.
 - (c) reduction in property values.
 - (d) more profits to the construction company.
- (19) Which one of the following can be considered an example of cyclical unemployment?
- (a) Air line cuts jobs during a recession.
 - (b) Cleaners lose their jobs because of the use of machines.
 - (c) Fishermen have stopped fishing due to over fishing.
 - (d) During the off season hotels employ less workers.
- (20) An external economy of scale is
- (a) Buying machines from other companies.
 - (b) Carrying out research with other companies.
 - (c) Lending money to other companies.
 - (d) Selling output to other companies.

(20 × 1 Mark = 20 Marks)

End of Part I

PART II

Section A

Answer any 2 questions

Question No. 2 (20 Marks)

- (a) Russia and China have moved towards a free market economy. Describe the economic factors which brought about this change? **(12 Marks)**
- (b) Describe characteristics of a planned economy. **(08 Marks)**
(Total 20 Marks)

Question No. 3 (20 Marks)

- (a) Define opportunity cost with the help of a Production Possibility Curve (PPC). **(10 Marks)**
- (b) What do you understand by the terms Scarcity and Choice? **(10 Marks)**
(Total 20 Marks)

Question No. 4 (20 Marks)

- (a) Explain the “other factors” that are assumed to be constant when accepting the law of demand. **(12 Marks)**
- (b) Describe the difference between an “expansion and contraction” of demand and an “increase or a decrease in demand”. **(08 Marks)**
(Total 20 Marks)

Question No. 5 (20 Marks)

- (a) Explain the term Efficiency in economies. **(06 Marks)**
- (b) Compare a perfect market and a monopoly market. **(14 Marks)**
(Total 20 Marks)
End of Section A

Section B

Answer any 2 questions

Question No. 6 (20 Marks)

- (a) Describe the main effects of inflation to an economy. **(12 Marks)**
- (b) Explain what will happen to the main functions of money in such a situation. **(08 Marks)**
(Total 20 Marks)

Question No. 7 (20 Marks)

- (a) Prepare a current account of a balance of payments statement. **(10 Marks)**
- (b) State what must be done to remedy a deficit in the current account of the balance of payments. **(10 Marks)**
(Total 20 Marks)

Question No. 8 (20 Marks)

- (a) Explain how a budget is important to implement fiscal policy. **(10 Marks)**
- (b) How will taxes be used as an incentive for economic growth? **(10 Marks)**
(Total 20 Marks)

Question No. 9 (20 Marks)

- (a) Describe the usefulness of National Income statistics to an economy. **(10 Marks)**
- (b) What are the problems that one has to face when calculating national Income? **(10 Marks)**

(Total 20 Marks)

End of Section B

End of Part II

End of Question Paper
