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Serial No.....

Society of Certified Management Accountants of Sri Lanka

Technician Stage September 2008 Examination

Examination Date : 21st September 2008
Examination Time: 1.30p.m.- 4.30p.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)

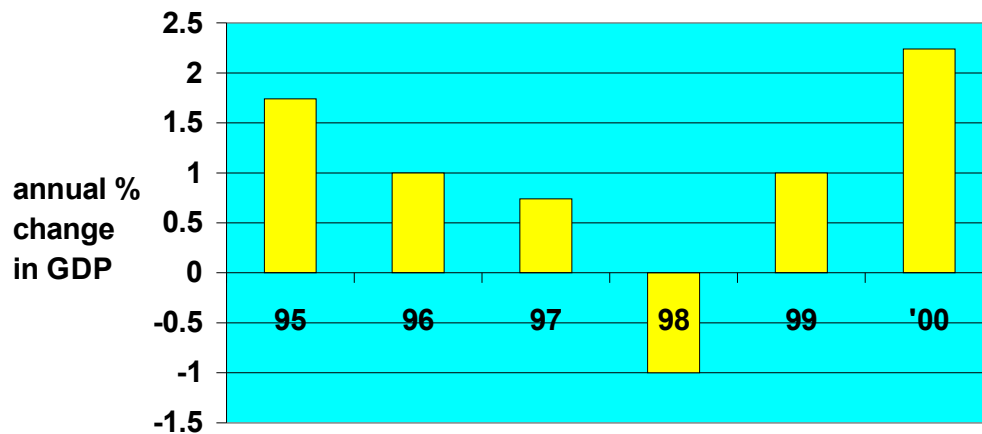
PART I

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 student records 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
- (2) A claim for higher wages by a trade union would **not** be helped by an increase in
 - (a) Consumers' demand
 - (b) Labour productivity
 - (c) Profit
 - (d) Unemployment
- (3) What is meant by 'the separation of ownership and control in business organisations?'
 - (a) Increased control by the workforce
 - (b) Government intervention in business organisations
 - (c) The employment of managers who are not shareholders
 - (d) The expansion of private enterprise
- (4) Which organisation controls the banking system in most countries?
 - (a) Central Bank
 - (b) Commercial Bank
 - (c) Investment Bank
 - (d) World Bank

- (5) Many countries have been extending the role of market forces in their economies. What is intended to result from this action?
- Greater economic efficiency
 - Greater equality of income
 - Less specialization
 - More government control
- (6) What is an example of forward vertical integration?
- A car manufacturer takes over a tyre manufacturer
 - A tyre manufacturer takes over a firm selling cars
 - A tyre manufacturer takes over a rubber plantation
 - A tyre manufacturer takes over another tyre producer
- (7) A government increases pension payments to its retired employees. What must increase immediately?
- Gross Domestic Product
 - Public expenditure
 - The budget surplus
 - The cost of living
- (8) The graph shows the rate of economic growth in country X.



- Which one of the following statements is true?
- Gross Domestic Product fell from 1996 to 1997
 - Gross Domestic Product was lowest in 1998
 - Gross Domestic Product rose from 1995 to 1996
 - There was no economic growth between 1996 and 1999
- (9) What is necessary for a company to be classified as a multi-national?
- It diversifies its range of products
 - It exports most of its output
 - It increases its scale of production
 - It produces some of its output in different countries
- (10) Which advantage is most likely to enable a small retailer to compete with larger stores?
- A convenient location
 - Wide range of products
 - Internal economies of scale
 - National advertising

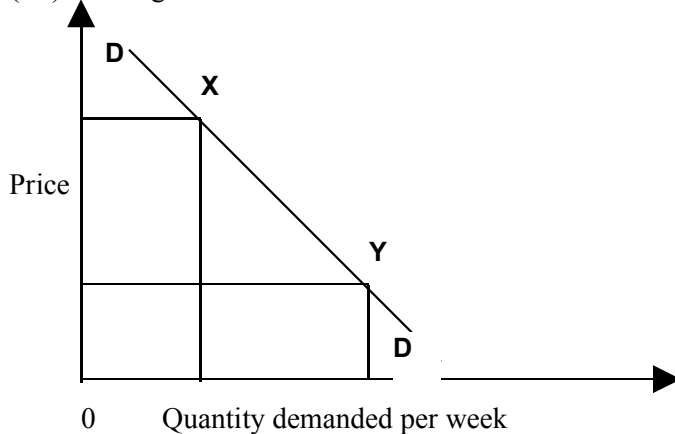
(11) A commercial bank is appointed to act as the country's Central Bank. What new function would it now have?

- (a) Controlling monetary policy
- (b) Dealing in foreign exchange
- (c) Ensuring security for loans
- (d) Holding liquid assets

(12) 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

(13) The diagram shows the demand for chocolates.



What could cause the movement from point X to point Y?

- (a) A change in tastes
- (b) A fall in the price of chocolates
- (c) An increase in income
- (d) A successful advertising campaign for chocolates

(14) The table shows the price of, demand for and supply of X per week.

Price (\$)	Demand (tones)	Supply (tones)
20	16	10
30	12	12
40	10	14

What will be the effect if the government imposes a minimum price of \$40 per tone?

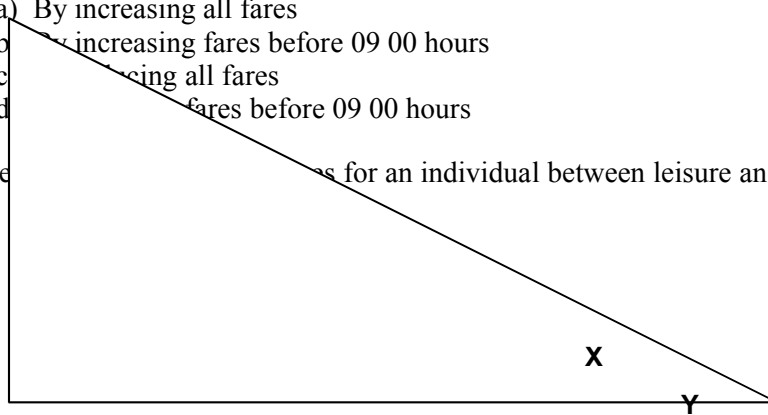
- (a) A fall in the price of X
- (b) A shortage of X
- (c) A surplus of X
- (d) A waiting-list for X

(15) A bus company knows that demand for travel before 09 00 hours is inelastic and that of after 09 00 hours it is elastic.

How is the company certain to increase total revenue?

- (a) By increasing all fares
- (b) By increasing fares before 09 00 hours
- (c) By decreasing all fares
- (d) By decreasing fares before 09 00 hours

(16) The graph shows the trade-off for an individual between leisure and earnings.



What is the opportunity cost to the individual of the extra earnings when moving from position X to position Y?

- (a) Rs.20
- (b) Rs.80
- (c) 4 hours' leisure
- (d) 8 hours' leisure

(17) Which asset is **not** part of the factor of production 'land'?

- (a) A forest
- (b) A natural harbour
- (c) An oilfield
- (d) A road

(18) Which is an external economy of scale?

- (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

(19) What is unlikely to be a feature of a large firm in a monopoly position in a market?

- (a) It achieves economies of scale
- (b) It will attract government attention
- (c) It charges high prices
- (d) It experiences intense competition in that market

(20) Which one of the following is likely to be a disadvantage of economic growth?

- (a) Government tax revenue falls.
- (b) Resources are depleted.
- (c) The level of unemployment rises.
- (d) The standard of living of the population falls.

(20 x 1 Mark = 20 Marks)

End of Part I

PART II

Section A

Answer any 2 questions

Question No.2 (20 Marks)

All economies have to face the same economic problems. One economy differs from another economy because the solutions are different.

- (a) What are the basic economic problems of a country? **(3 Marks)**
- (b) Describe the main features of a market economy. **(7 Marks)**
- (b) How does a planned economic system differ from a market economy? **(10 Marks)**
- (Total 20 Marks)**

Question No.3 (20 Marks)

- (a) What do you understand by the phrase: “contraction of demand and expansion of demand”? Explain, illustrating your answer with diagrams. **(10 Marks)**
- (b) What do you understand by: ‘The shift of the demand curve’? Illustrate your answer with a diagram. **(10 Marks)**
- (Total 20 Marks)**

Question No.4 (20 Marks)

- (a) Describe how a firm can assume a monopoly position. **(12 Marks)**
- (b) Illustrate with a diagram the equilibrium position of a firm in a monopoly market structure. **(8 Marks)**
- (Total 20 Marks)**

Question No.5 (20 Marks)

Write short notes on the following;

- (a) Opportunity cost **(5 Marks)**
- (b) Production possibility curve **(5 Marks)**
- (c) Excess demand **(5 Marks)**
- (d) Invisible Hand **(5 Marks)**
- (Total 20 Marks)**
End of Section A

Section B

Answer any 2 questions

Question No.6 (20 Marks)

- (a) What are the main causes of Inflation? **(9 Marks)**
- (b) What are the economic consequences of Inflation? **(11 Marks)**
(Total 20 Marks)

Question No.7 (20 Marks)

- (a) What are the advantages of international trade? **(9 Marks)**
- (b) In spite of these advantages why do some countries follow a policy of protectionism? **(8 Marks)**
- (c) Give 3 methods that are used to follow a policy of protection. **(3 Marks)**
(Total 20 Marks)

Question No.8 (20 Marks)

- (a) What do you mean by economic development? **(4 Marks)**
- (b) What are the costs of economic development? **(8 Marks)**
- (c) What are the benefits of economic development? **(8 Marks)**
(Total 20 Marks)

Question No.9 (20 Marks)

- (a) Define the term National Income and draw a diagram to show the circular flow of income in a two sector economy. **(8 Marks)**
- (b) What are the advantages of compiling National Income data? **(8 Marks)**
- (c) When compiling National Income DATA, state 2 problems that are faced. **(4 Marks)**
(Total 20 Marks)

End of Section B

End of Part II

End of Question Paper
