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Serial No.....

Institute of Certified Management Accountants of Sri Lanka

Technician Stage September 2009 Examination

Examination Date : 13th September 2009

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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 / 505)

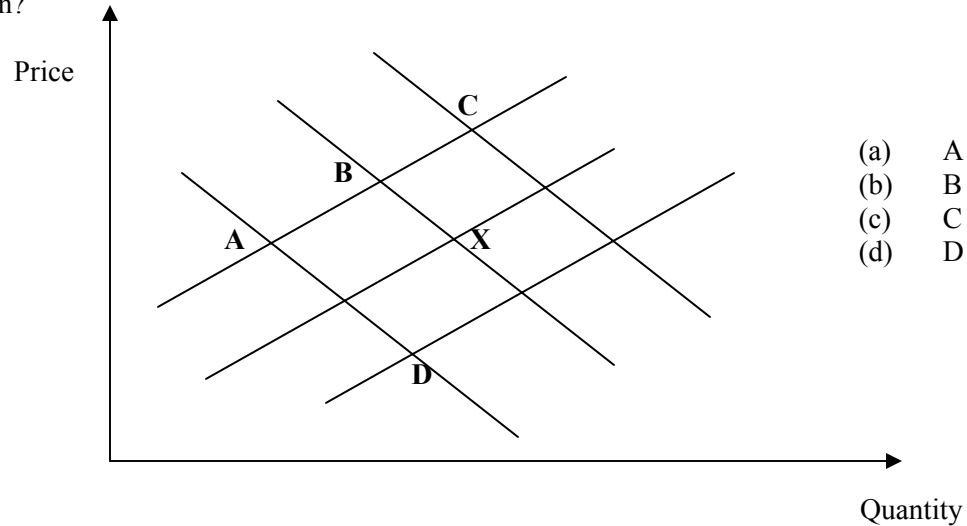
PART I

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) What is found in a market economy but not in a command economy?
 - (a) Division of labour.
 - (b) Economies of scale.
 - (c) Money as a store of value.
 - (d) The profit motive.
- (2) Sometimes travel companies advertise holidays at prices below cost. For what reason?
 - (a) An excess demand for holidays.
 - (b) An excess supply of holidays.
 - (c) A price inelastic demand for holidays.
 - (d) Insufficient competition in the holiday market.
- (3) What is the main purpose of a trade union?
 - (a) To achieve profit maximization.
 - (b) To encourage free trade.
 - (c) To promote private ownership of industry.
 - (d) To protect the interest of its members.

- (4) The diagram shows the demand and supply of vacancies in private schools that charge fees. The equilibrium position is X. the costs of the schools go up and there is also a newspaper report that government schools have good results. What is likely to be the new equilibrium position?



- (5) What might cause the wages of bus drivers to rise?
- Their productivity falls.
 - The number of bus routes falls.
 - The number of people making bus journey falls.
 - The supply of bus drivers falls.
- (6) A French Company employing French people, is located only in France. It sells shares on the stock exchange and uses other firms to transport its products to other countries. What type of company is this?
- A cooperative.
 - A private company.
 - A public company.
 - A multi-national.
- (7) A demand curve for a product shows a relationship between its price and
- Cost of production.
 - Population changes.
 - The income of the consumer.
 - The quantity of the product consumed.
- (8) Which statement is correct?
- Average revenue is total revenue divided by output.
 - Fixed cost is total cost plus variable cost.
 - Total cost is variable cost multiplied by fixed costs.
 - Total revenue is fixed revenue minus variable revenue.
- (9) An economy can produce either X goods or Y goods or a combination of both X goods and Y goods. Which statement is correct.
- It has rising long run average costs.
 - It is operating in the short run.
 - Its fixed costs are less than variable costs.
 - Its output is increasing faster than its inputs.

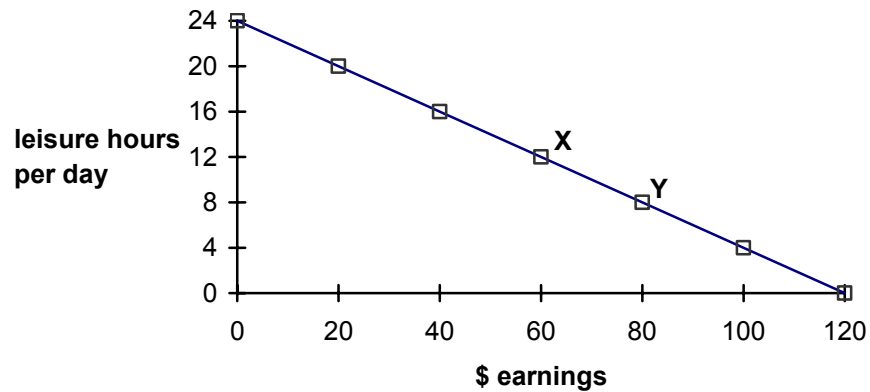
- (10) What is likely to lead to a decrease in unemployment?
- (a) Reducing the interest rate.
 - (b) Increasing the rate of unemployment benefit.
 - (c) Reducing the rate of income tax.
 - (d) Increasing labour mobility.
- (11) Two industries in this country are fishing and tourism. The value of the currency fell in 2001. If there were no other changes, what resulted from this fall?
- (a) Imported goods became cheaper.
 - (b) The price of fish they exported became cheaper.
 - (c) The volume of exports decreased.
 - (d) Tourists were discouraged by higher prices.
- (12) In rural areas in developing countries women often do under paid work on traditional activities. Why might this mean that GDP is not a good measure of the standard of living in these countries?
- (a) The GDP does not include international trade.
 - (b) The GDP only refers to companies in urban areas.
 - (c) The work is not counted in GDP statistics.
 - (d) The work is not economically important.
- (13) What is an external cost of cigarette smoking?
- (a) The cost of the tobacco.
 - (b) The danger to non-smoker's health.
 - (c) The harm done to smokers.
 - (d) The tax on cigarettes.
- (14) What is the result if Europe reduces trade barriers to increase imports of clothing and food from Asia and Africa?
- (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 Asia and Africa.
- (15) What is the main reason why the government rather than the private sector builds and runs hospitals?
- (a) Hospitals are expensive to build.
 - (b) The government has enough tax revenue to pay for hospitals.
 - (c) The government needs to be sure that the doctors are well trained.
 - (d) The whole country can benefit from the provision of good health facilities.
- (16) Why may it be better to increase public expenditure while reducing private expenditure?
- (a) Goods and services which the market ignores can be produced.
 - (b) Government officials are likely to be more careful in spending money than private individuals.
 - (c) The profit motive makes government departments more efficient than private firms.
 - (d) The government is the best judge of the satisfaction gained from goods and services.
- (17) Citizens most likely to benefit in a period of rapid inflation are those who
- (a) Are receiving fixed benefits.
 - (b) Earn fixed incomes.
 - (c) Have lent money at a fixed rate of interest.
 - (d) Have borrowed money at a fixed rate of interest.

(18) The table gives information about 4 business organizations.

Which organization is most likely to be described as a co-operative?

	Owners have limited liability	Owned by its members
(a)	No	Yes
(b)	No	No
(c)	Yes	Yes
(d)	Yes	No

(19) The diagram shows the choices 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) 20 dollars
- (b) 80 dollars
- (c) 4 hours of leisure per day
- (d) 6 hours of leisure per day

(20) In year 2005 world oil prices increased significantly.

What effect would an increase in oil prices have on a company that transports goods for other companies?

- (a) Average fixed costs would increase.
- (b) Profits would increase.
- (c) Total fixed costs would increase.
- (d) Variable costs would increase.

(20 x 1 Mark = 20 Marks)

End of Part I

PART II

Section A

Answer any 2 questions

Question No. 2 (20 Marks)

- (a) Today most economies have moved away from the planned system and are moving towards the market system. Why? Give reasons. Explain giving reasons why it is so? **(12 Marks)**
- (b) How are resources allocated in a market economy? **(08 Marks)**
(Total 20 Marks)

Question No. 3 (20 Marks)

- (a) What is meant by an equilibrium price and show how this can change? **(10 Marks)**
- (b) If an indirect tax is imposed by a government how will it affect the producer and the consumer? **(10 Marks)**
(Total 20 Marks)

Question No. 4 (20 Marks)

- (a) Show the differences between a Perfect Market and an Imperfect market such as Monopolistic Competition. **(12 Marks)**
- (b) What do you understand by the terms productively efficient and allocatively efficient? **(08 Marks)**
(Total 20 Marks)

Question No. 5 (20 Marks)

- (a) Describe the different sectors in an economy with examples. **(10 Marks)**
- (b) Explain the main features that distinguish a developed economy from a developing economy. **(10 Marks)**
(Total 20 Marks)
End of Section A

Section B

Answer any 2 questions

Question No. 6 (20 Marks)

- (a) Explain what could happen to the four functions of money in an economy that is experiencing inflation. **(08 Marks)**
- (b) How does inflation affect the different types of income earners in an economy? **(12 Marks)**
(Total 20 Marks)

Question No. 7 (20 Marks)

- (a) What do you understand by the terms expenditure switching and expenditure reducing with regard to a balance of payments problem? **(08 Marks)**
- (b) What do you understand by a deficit in the current account and what must be done to bring about changes in the economic structure? **(10 Marks)**
(Total 20 Marks)

Question No. 8 (20 Marks)

- (a) Explain what is meant by fiscal policy and monetary policy. **(08 Marks)**
- (b) Describe how the economy is affected by demand policies and supply side policies. **(12 Marks)**
(Total 20 Marks)

Question No. 9 (20 Marks)

- (a) Define the term National Income and illustrate the Circular Flow of income. **(10 Marks)**
- (b) Explain how useful these statistics are. **(10 Marks)**
(Total 20 Marks)

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