Provincial department of Education

Northern Province

Practice Exam- May 2019

ECONOMICS **GRADE 13(2019)**

Marking scheme

PART 1

1. 2	2. 3	3. 4	4. 5	5. 4
6. 1	7. 3	8. 2	9. 5	10. 3
11. 5	12. 4	13. 5	14. 2	15. 5
16. 1	17. 4	18. 4	19. 3	20. 2
21. 2	22. 3	23. 3	24. 2	25. 1
26. 5	27. 3	28. 2	29. 5	30. 2
31. 2	32. 4	33. 3	34. 4	35. 2
36. 3	37. 5	38. 3	39. 2	40. 4
41. 2	42. 1	43. 4	44. 3	45. 4
46. 3	47. 3	48. 1	49. 2	50. 3

PART 11

Question 01

i. No
- Resource gifted from nature used in the production process is called natural resources.
- Resources with a limited supply against unlimited wants of a society. Which are scarce in nature are called economic resources
- The non-scarce resources gifted by nature and which do not involve an opportunity cost are called non-economic resources

ii. Characteristics of planned economy
- Public ownership of resources
- Government entrepreneurship
- No completion

Characteristics of price mechanism
- Private ownership of resources
- Private entrepreneurship
- More completion

iii. Man made equipment's used to produce goods and services are called capital

Example: Factories

Machinery equiptments

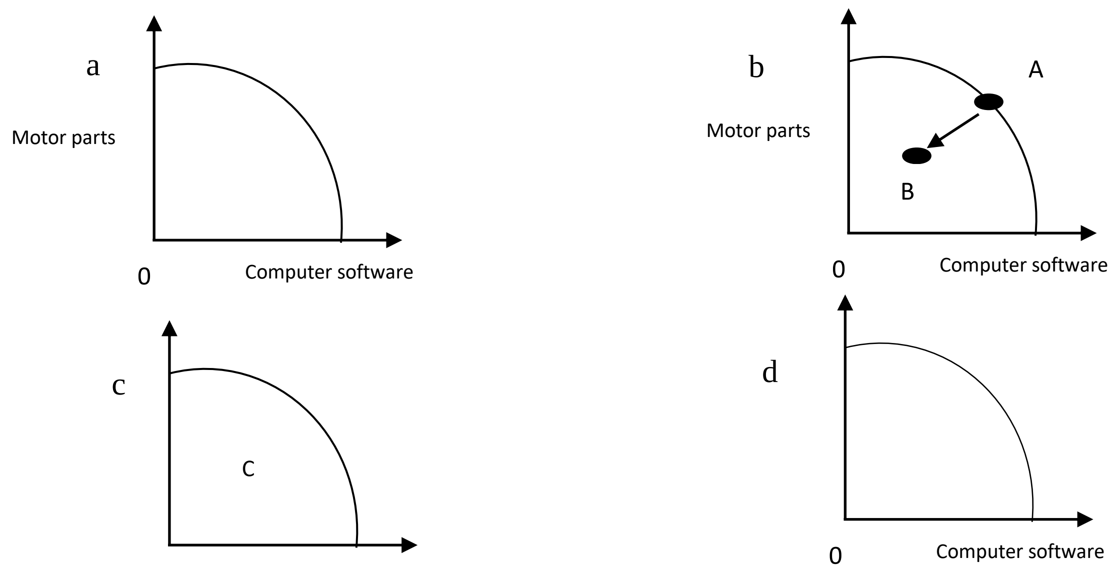
Institutions which improve social interrelations quantitatively and qualitatively, traditions, membership of clubs and social networks are called social capital

Example: Communication networks

iv. Production efficiency means achieving of maximum output by using low level of input

1. Full employment
2. Full production

v.



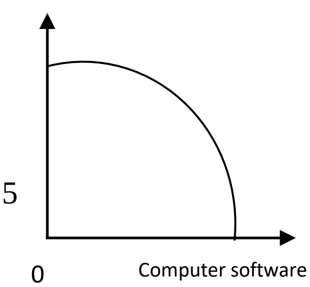
Question 02

i. Decrease in price of raw materials

Improvement of technology

Increase in number of producer

Increase in price of competitive goods



ii. Price elasticity of demand =3% / 5% = 0.6

a. Cross elasticity of demand = 7.5% / 5% = 1.5
b. X is a giffen good

   X and Y are substitute goods

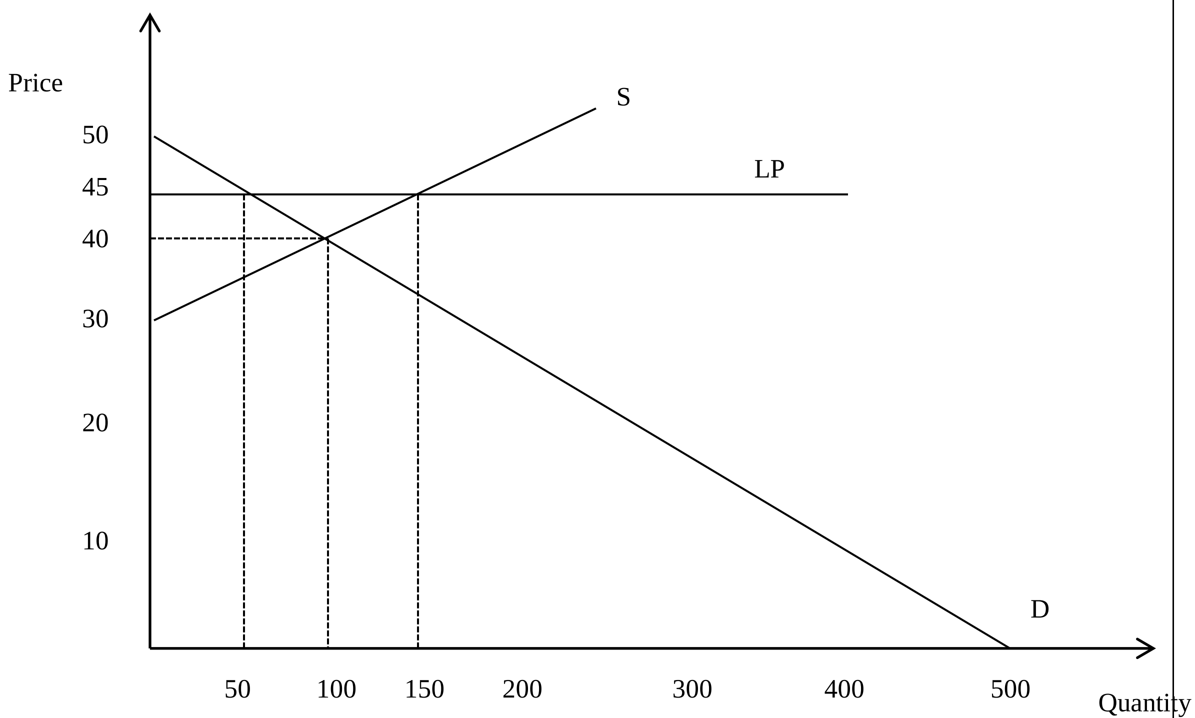
iii. The difference between the price and that the consumer is willing to pay and the price that the consumer actually pays for the quantity of goods exchanged at the market is called consumer surplus

Consumer surplus = $\frac{\text{Maximum demand price – Equilibrium price}}{2}$ X equilibrium quantity

The difference between the minimum price that the supplier is willing to receive and the price they actually receive is known as producer surplus.

Producer surplus = $\frac{\text{Equilibrium price - Minimum supply price}}{2}$ X equilibrium quantity

iv.



a. Equilibrium Price Rs 40
   Equilibrium quantity 100 Units

b. Government purchasing expenditure = Control price X Excess Supply price
   = 45 X 100
   = 4500/=

c. Consumer Surplus amount = $\frac{\text{Highest demand price – Control Price}}{2}$ X Consumption
   = $\frac{50 – 45}{2}$ X 50
   = 250/ 2
   =125/=

Question 03

i. Maximum Control price

When the government think that market equilibrium is unfair for consumers to give them fairness the legal price decided by the government is called maximum price control

Minimum price control

When the market equilibrium is unfair for producer, the price which is legally implemented higher than the equilibrium price to give a better price for producers is known as minimum price

ii.

a. Consumer expenditure = 10 X 25 = 2500/=

b. Consumer surplus at equilibrium price $= \frac{40 - 10}{2} X 250$

$= 30 X 125$

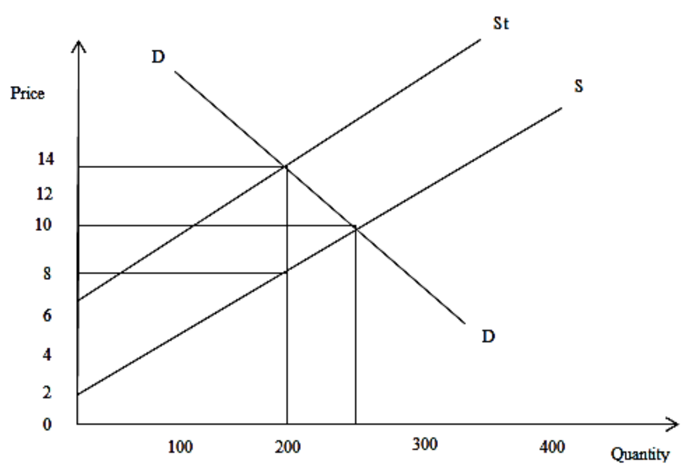
$= 3750/=$

c. Consumer surplus after tax

$\frac{40 - 10}{2} X 235 \quad = \frac{29 X 235}{2} \quad = 3407.50/=$

Loss of consumer surplus = 342.50/=

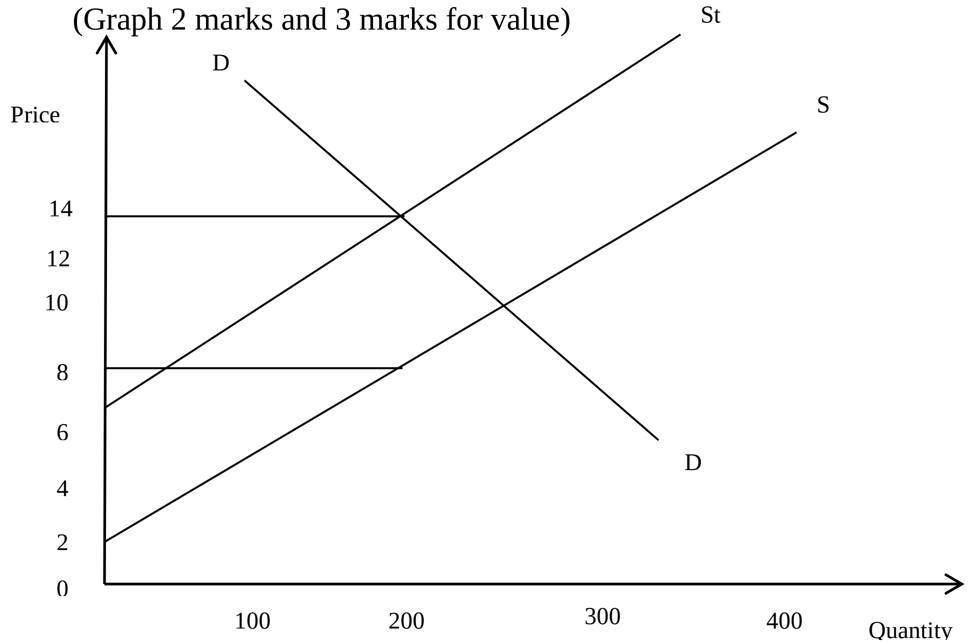
iii.

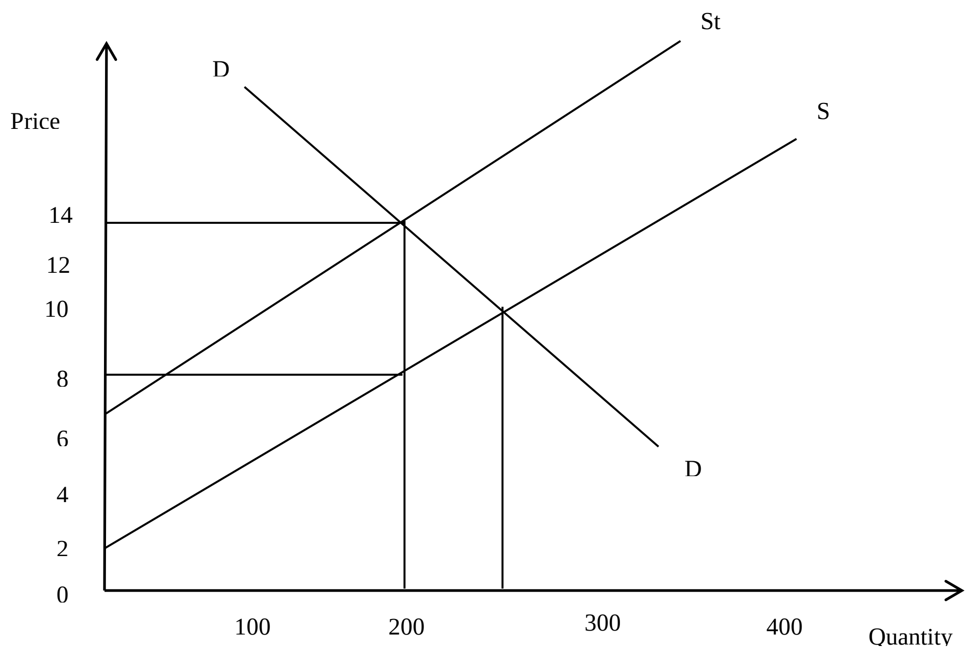


Consumer excess burden of tax $= \frac{4 X 50}{2} = 100/=$

Producer excess burden of tax $= \frac{2 X 50}{2} = 50/=$

(Graph 2 marks and 3 marks for value)





iv. Consumer income is constant price of substitute good is constant price of complimentary good is constant consumer taste is constant number of consumer is constant.

Question 04

i. The law of diminishing marginal returns is explained the short run costs
Short run average variable cost declines when the increasing marginal return is functioned
Average variable cost increases when the diminising marginal return’s functioned

MC declines due to the increasing marginal returns but MC decline mare than AVC
MC increase due to the diminighing marginal returns. But MC increase more than AVC
So, MC curve minimum point of AVC

ii.

a. TVC = TR – Producer surplus
= 45 000 – 23 000
= 22 000

Output = TR / MC
= 45 000 / 45 = 1 000

So AVC = TVC / Q
= 22 000 / 1 000
= 22

b. TC = AC X Q
= 40 X 1 000
= 40 000

TFC = TC - TVC
= 40 000 – 22 000
= 18 000

So AFC = TFC/Q = 18 000 / 1 000 = 18/=

c. Output = TR / MC
= 45 000 / 45 = 1000

iii. Economies of scale is the decrease in average variable cost when expaning the production in long run
Such as

- Managerial efficiencies
- Technology efficiencies
- Marketing efficiencies
- Financial efficiencies
- Risk bearing efficiencies

iv. The opportunity cost of resources owned by the firm which used in production process is called indirect cost
Components of direct costs
Forgone interest income
Forgone income of salary
Economic depreciation
Normal profit

Question 05

i. Features of the point of peak
Increasing real product
High level of investment
High level of employment opportunities

Features of the point of trough
Decreasing real product
Low level of investment
High level of unemployment

ii. Following production approach, when estimating the value of the gross domestic product the product's value can be over estimated by adding the value of same good at several items
This addition of the value of the same good at several times is called multiple counting errors

Suitable example
Example Calculation
GVA = GVO – IC

iii.

a. Domestic expenditure = 1000 + 200 + 400 +800
= 2400 MRS

Net export = Gross Domestic product – Domestic expenditure
= 3 200 – 2 400
= 800 MRS

b. National saving = Gross domes + capital formation + Net export + Foreign primary income + Net foreign secondary income
= 800 + 800 + 750 + 1200
= 3550 MRS

c. Disposable Gross national income = GDP + net foreign primary income + net foreign secondary income
= 3 200 + 750 + 1 200
= 5150 MRS

iv.

a. a = 400 MRS
b = 800/ 1000 = 0.8
c = a + by
c = 400 + 0.8y

S = -a + (a – b) y
= - 400 + (1 – 0.8) y
= -400 + 0.2y

b. MPC = 0.8 MPS = 0.2
K = 1/MPS
= 1/0.2
= 5

K = ΔY/ ΔG
S= ΔY/200
ΔY=1000MRS
Equilibrium level of income will increase by 1000MRS

Question 06

i.

a. There are positive relationship between real income and demand for money
If real income increases, demand for money will increase. In other words, if real income decreases, demand for money will decrease.

b. There are positive relationship between general price level and demand for money. If general price level increase, purchasing power of money will decrease so demand for money will increase

ii. Monetary targeting aims of reaching final target of price stability while controlling intermediary target of broad money supply (M2b) which combines with reserve money through money multiplier

Reserve money was act as the operational target of this monetary policy however it does not act as the operational target anymore. Broad money continue to serve as the key indicative intermediate variable that direct monetary policy

iii.

a. Required reserve = 1400/7000 X 100 = 20%

b. New deposits = excess loan X deposit multiplier
= 600 X 5 = 3000MRS

c. Total deposit = required reserve X deposit multiplier
= 2500 X 5 = 12500 MR

New money supply level = Total deposit + Cash in hand
= 12500 + 300
=12800 MRS

iv. Primary reserves
- Cash in hand
- Cash due from central bank
- Cash with other domestic bank

Earning assets
- Treasury bills
- Treasury bonds
- Loan

v. Nominal product growth rate = 500/10 000 X 100
= 5%

MV= PT

Growth of T is 2%
So, value of general price level is 5% - 2% = 3% ↑

Question 07

i. Merit good
   - Social benefit is greater than private benefit
   - Merit good which has positive externalities

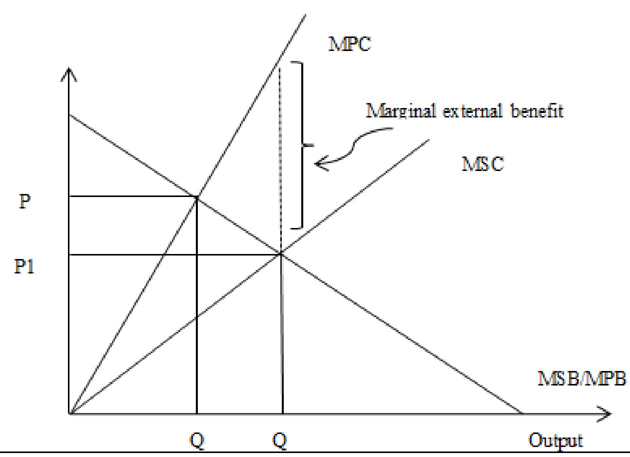
   Demerit good
   - Private benefit is greater than social benefit
   - Demerit good which has negative externalities

   Public good
   - Non rival consumption
   - Non excludability

   Public resources
   - Rivalry consumption
   - Non excludability

ii. Market economy is functioned price mechanism
There are considered private benefit and private cost to allocate resources

External benefit does not consider in production
So, at a situation of positive externality of production market output level will be lower than the social optimum output level



Q1 Social optimum output
Q Market output
(Graph explanation 2 marks)

iii. Efficiency resource allocation
Fair distribution of income
Establishing of macro economic stability
Establishing of sustainable development and economic growth
Controlling external cost

iv. Statutory tax incidence/ legal tax compliance
Legal tax compliance means to which person the tax is legally directed
E.g
Economic tax compliance
Actual burden of tax is the economic tax compliance

v. Current account balance = Government revenue + recurrent expenditure
= (1600 + 500) – 3300
= -1200 MRS

Recurrent expenditure = expenditure on goods and services + current transfers + interest payments

3300 = 2200 + 800 + interest
Interest = 3300 - 3000
= 300 MRS

Question 08

i. Assumptions

- Perfect factor mobility
- Constant returns to scale

- Absence of experiments result to production and consumption
- Non consideration of transportation cost

ii.

a. Nominal protection rate 10%

b. V0 = 8000 – 2000 = 6000

V1 = 8000 + (8000 X 10/100) – 2000 = 6800

ERP = V1-V0/V0 X100

= 6800 – 6000/6000 X 100

= 800/6000 X 100

= 13.3%

c. V0 = 8000 – 2000

= 6000

V1 = (8000 X 110/100) – (2000 X 105/100)

= 8800 – 2100

= 6700

ERP = V1-V0/V0 X100

= 6700 – 6000 / 6000 X 100

= 11.7%

iii. Promotion of multilateral trade

Making reformation within the international trade mechanism through the amendments made to the law of trade and by minimizing barriers of trade

iv. Methods of short term financing

- Using of foreign reserves
- Borrowing money from IMF
- Borrowing short term funds from other international

Methods of long term financing

- Export diversification
- Encouraging foreign direct investment
- Empowering traditional exports
- Let exchange rate to depreciate or devaluate

v. To import goods travel to other country

To repay debt

To pay interest for borrowing and to pay transfer foreign countries

Question 09

i. Continuous increase in real gross domestic product of the economy is called as economic growth.

Economic growth refers to the expansion of production capacity of the economy or potential output. During the economic growth real output of the economy expands in long run. PPC will shift right ward.

Sustainable development is the development that fulfills the human needs of present generation without compromising the human needs of future generation. for sustainable development a balanced growth of al 3 sectors of social, economic and environment should be achieved.

ii. Absolute poverty means a situation of not receiving an adequate income to fulfill basic needs by a particular person.

National poverty line and international poverty line show absolute poverty.

A situation of receiving a relatively low income by a group of people compared to other group of people due to income disparity is known as relative poverty.

Relative poverty generate with income disparities.

In this it is considered that how much of total income is received by the 40% of low level income earners.

iii.

- Possibility to attain improved living standards
- Increase in employment
- Maintenance of successful fiscal management
- Increase employment opportunities
- Strengthening of investment

iv.

- Reduction of employment
- Reduction of poverty
- Reduction in the equalities in the distribution of income
- Protecting environment
- Increasing investment in education and health services
- Reducing corruption in the economy

v.

- Low income economies
- Lower middle income economies
- Upper middle income economies
- High income economies

Question 10

i.

- Economic incentive and structure of institution
- Innovations and trend to utilizing the technology
- Education and training
- Infrastructure facilities under the ICT

ii.

- Electricity plan
- Gamberaliya
- Udhagama
- Gamaneguma

- Gemiputhuva
- Gemithiriya

iii.

- Increasing the productivity
- Increase in economic growth rapidly
- Cause to increase the attraction of foreign investors
- Efficiency the management and coordination
- Cause to increase living standard of people

iv.

- Increasing infrastructure facilities in regional wise
- Providing job training in regional wise
- Resource should be allocated efficiently in regional wise
- Providing marketing facilities for regional products
- Implementing investment plans in regional wise