



General Certificates of Education Advanced Level Examination- 2013

Revision Question Paper

Economics I

All Right Resaved

Answers for Multiple Choice Question Paper

01 – 4.	11 – 2.	21 – 5.	31 – 5.	41 – 1.
02 – 5.	12 – 3.	22 – 1.	32 – 4.	42 – 2.
03 – 4.	13 – 4.	23 – 4.	33 – 4.	43 – 1.
04 – 1.	14 – 2.	24 – 3.	34 – 2.	44 – 2.
05 – 5.	15 – 4.	25 – 2.	35 – 4.	45 – 5.
06 – 1.	16 – 3.	26 – 5.	36 – 4.	46 – 4.
07 – 3.	17 – 4.	27 – 2.	37 – 5.	47 – 3.
08 – 5.	18 – 5.	28 – 5.	38 – 3.	48 – 3.
09 – 2.	19 – 3.	29 – 3.	39 – 1.	49 – 1
10 – 1.	20 – 4.	30 – 1.	40 – 2.	50 – 5.



General Certificate of Education Advance Level Examination -2013

Revision Question Paper

Economics II

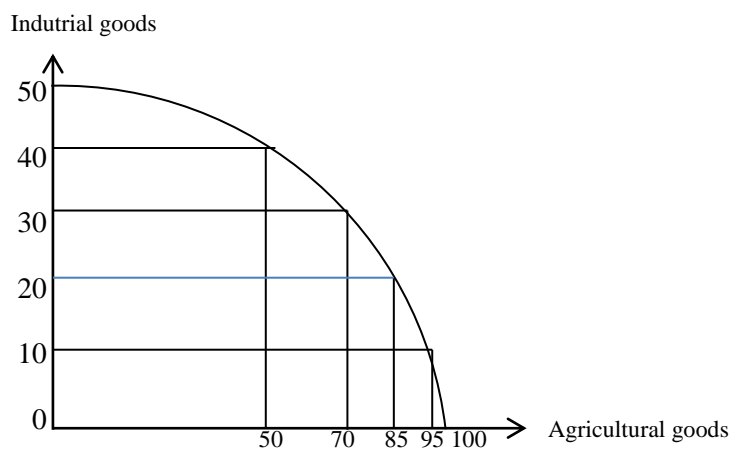
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Model answers and the Marking Scheme

1. (i) (a) Lands
(b) Capital
(c) Labour
(d) Enterprenership

(04 marks)

- (ii) (a)



(02 marks)

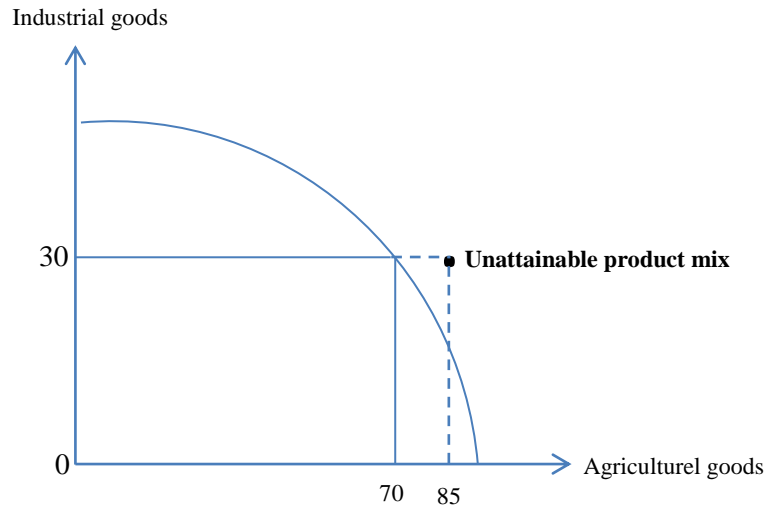
- (b) Resources are not homogeneous

- The resources that are used in the production of industrial goods can not be used in the same productivity in the agricultural goods.
- The production statergies and methodologies are different from one another. The methodology used in the production of industrial goods can not be used in the same manner in the production of agriculturæl goods.

(02 marks)

- (c) When 30 industrial goods are produced 10 agriculturæl goods are produced.

- A product combination of 30 industrial goods and 85 agriculturæl goods can not be produced. The major reason is the scarcity of resources.



(02 marks)

(d) No. When the production capacity increases the produceable goods may increase in a certain amount. But relatively to that, human wants rapidly grow. As a sufficient amount of resources are not available to satisfy those increased human wants the problem of scarcity further prevails unsolved. (02 marks)

- (iii) Signaling function.
Rationing function.
Incentive function.

(03 marks)

(iv) The market economy that functions with the Self – interest motive always selects a cost minimized production methodology according to the guidance of the price mechanism. There, decisions on factor combinations are concerned paying attention on the relative factor price.

A planned economy functions with the motive of social welfare chooses the production methodology under the guidance of the planning mechanism. Here, the production methodology which maximized the social welfare is selected considering about the unemployment rate in the economy, production cost, allocating resources for the future etc.

In a mixed economy, the private sector according to the market forces and the government sector according to the planning process find solutions for the problem of production.

(03 marks)

(v) A market economy becomes inefficient on the following situations

1. Inefficiency in resource allocation/market failure.
2. Economic disparities/ disparity in income distribution.
3. Creating economic instabilities.

(02 marks)

(2). (i) The law of supply indicates that there is a positive relationship between the price of the relevant good and the quantity supplied when other factors held to be constant in a given specific situation.

(02 marks)

The supply curve slopes upwards due to two reasons,

- **Profit** – When other things are held to be constant when the price of the relevant good increases new suppliers enter the market due to the increase in marginal profit. As well, when other things are held to be constant when the price of the relevant good declines a group of suppliers exit from the market due to the reduction of the marginal profit.
- **Increasing opportunity cost** – When the amount of supply is increased marginal cost increases. Therefore supply is able to be increased under increasing price.

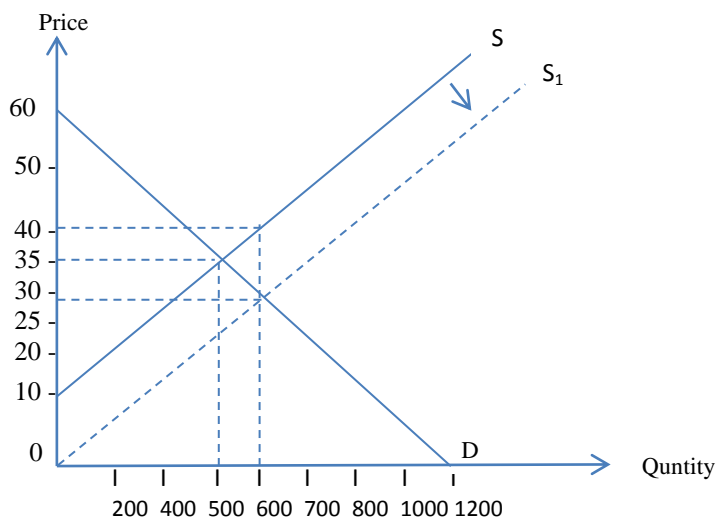
(01 mark for the each factor total 02)

(ii) The quantity supply at the price of Rs.10/=

$$\begin{aligned}
 \text{Excess Supply} &= \text{quantity supplied} - \text{quantity demanded} \\
 -1000 &= \text{quantity supplied} - 1000 \\
 -1000 + 1000 &= \text{quantity supplied} \\
 0 &= \text{quantity supplied}
 \end{aligned}$$

The quantity supply at the price of Rs. 40/=

$$\begin{aligned}
 \text{Excess supply} &= \text{quantity supplied} - \text{quantity demanded} \\
 200 &= \text{quantity supplied} - 400 \\
 200 + 400 &= \text{quantity supplied} \\
 600 &= \text{quantity supplied}
 \end{aligned}$$



(a) Equilibrium price = Rs. 35
 Equilibrium quantity = 500 units (Total 02 marks One mark for each)

(b) The supply curve shifts to the right from S to S₁ in the amount of the subsidy.

(I) The new equilibrium price = Rs. 30/=
 The new equilibrium quantity = 600 units (02 marks)

(II) Consumers surplus Before the subsidy } = $\frac{(\text{Maximum price of demand} - \text{equilibrium price}) \times \text{Eq}}{2}$

$$\begin{aligned}
 &= \frac{(60 - 35) 500}{2} \\
 &= 6250 \quad (01 \text{ mark})
 \end{aligned}$$

Consumers surplus After the subsidy } = $\frac{(60 - 30) 600}{2}$

$$\begin{aligned}
 &= 9000 \quad (01 \text{ mark})
 \end{aligned}$$

$$\text{(III) Producer's surplus before the subsidy } \left. \vphantom{\text{Producer's surplus before the subsidy}} \right\} = \frac{(\text{Price received by the producer} - \text{Minimum price of supply}) \times \text{equilibrium quantity}}{2}$$

$$= \frac{(35 - 10) \times 500}{2}$$

$$= 6250 \quad (01 \text{ mark})$$

$$\text{Producer's surplus after the subsidy } \left. \vphantom{\text{Producer's surplus after the subsidy}} \right\} = \frac{(40 - 10) \times 600}{2}$$

$$= 9000$$

(01 mark)

(iv) The government expenditure on the subsidy = Unit tax x Quantity sold
 = 10 x 600
 = 6000 (01 mark)

(v) Dead weight loss due to the Subsidy } = The government expenditure on the subsidy - Increased economic surplus
 = 6000 - 5500
 = 500 (01 mark)

(iii) Determinants of price elasticity of demand.

- Number of substitutes available for the good that is concerned.
- Number of benefits gained from the relevant good.
- The definition of the relevant good.
- The proportion of the income that is spent on the relevant good.
- Whether the relevant good is essential or not essential.
- The time lag passed after the changing of the price of the relevant good.

(03 marks – 01 mark for each)

(iv) Two kinds of factor incomes are included in the income received by selling factors.

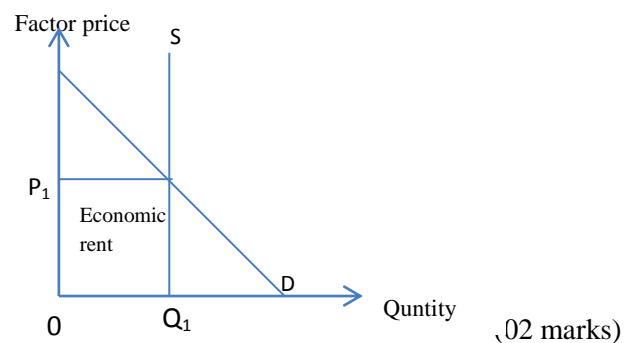
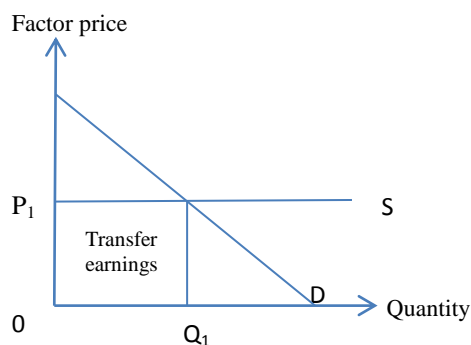
- Transfer earnings - The minimum amount of factor earnings that is expected by the factor owner to utilize the factors further in the existing usage.
- Economic rent - The amount of factor income earned greater than the transfer earnings.

(01 mark)

The amount of the economic rent is decided on the supply elasticity of factors.

If factors supply is perfectly elastic the total revenue earned by selling factors is the transfer earning.

If the factor supply is perfectly inelastic the total revenue earned by selling Factors is economic rent.



(02 marks)

(3) (i) Diminishing returns

In a short term production process, the decline of the marginal product and the average product of the variable input which is combined with the fixed input after a certain level.

(02 marks)

Diminishing returns to scale

In the long term when all of the inputs are increased by a certain percentage the output increases by a less presentage than that.

(02 marks)

(ii) (a) Accounting profit is the value that is gained by subtracting only the direct cost from the total income.

$$\text{Accounting profit} = \text{Total income} - \text{direct cost} \quad (01 \text{ mark})$$

Economic profit is the value that is gained by subtracting the direct and indirect cost from the total income.

$$\text{Economic profit} = \text{Total income} - (\text{direct cost} + \text{indirect cost})$$

The economic profit differs from the accounting profit from the indirect taxes.

(01 mark)

(b) Normal profit is the minimum profit that is expected to be earned for organizing the production process and bearing risks indulging in the production process by an enterprenur.

In economics the total opportunity cost borne in the production process is considered as the production cost.

As the normal profit is an opportunity cost it should be included in the production cost.

(03 marks)

(iii) Considered.

If the cost incurred in the past can not be regained at present such type of costs are considered as sunken cost.

(01 mark)

In a production process, when the cost is shouldered regarding purchases of fixed assets even if an opportunity cost existed, after shouldering the cost there is no an opportuniting cost regarding purchased assets. Therefore such costs are not the production process. But , the depreciations regarding the fixed asset as direct cost as well as economic depreciations as indirect cost are included in the production cost.

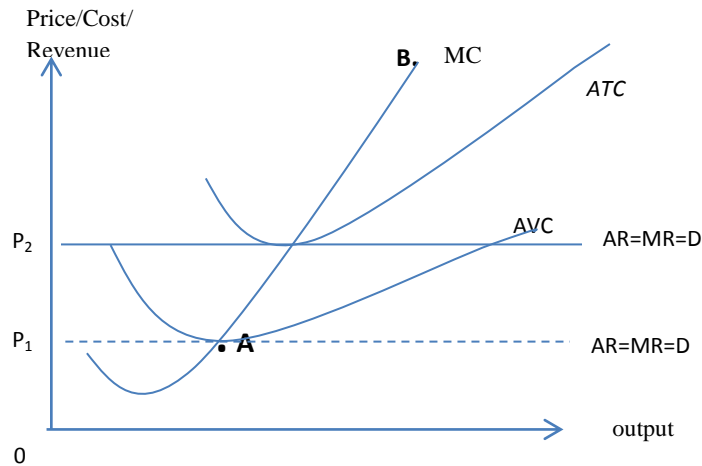
(02 marks)

(iv) (a)

Monopoly Market	Oligopoly Market
1. Existence of one supplier or one firm.	1. less number of suppliers.
2. Specific goods are produced.	2. differentiated or homogeneous goods are prduced.
3. Independently price is determined/price maker.	3. price is determined mutually rigidity of price.
4. A publicity limited for the introduction is made.	4. competitively publicity is used.

(04 marks)

(b)



A perfectly competitive market determines whether to exist in the production or not in the short term, When the market price of the good is equal or above to the minimum average variable cost or a price below it.

In the above diagram the P_1 price relevant to the A point illustrates that.

If there is a price below P_1 price in the market the firm stop the production.

(02 marks)

The short term supply curve of the perfectly competitive market is the marginal cost curve sloped upwards starting from the minimum point of the AVC curve. It has been illustrated as AB on the MC curve in the diagram.

(02 marks)

(4). I (a)

$$\begin{aligned}\text{National Income} &= \text{net interest} + \text{labour earnings} + \text{corporate profits} + \text{rent income} + \\ &\quad \text{net foreign factor income} \\ &= 200 + 1000 + (60 + 40 + 50) + 300 + (50 - 100) \\ &= 1600\end{aligned}$$

(b)

$$\begin{aligned}\text{Net domestic product} &= \text{net interest} + \text{labour earnings} + \text{corporate profits} + \text{rental income} + \\ &\quad \text{net indirect taxes} \\ &= 200 + 1000 + (60 + 40 + 50) + 300 + 200 \\ &= 1850\end{aligned}$$

(c)

$$\begin{aligned}\text{Depreciations} &= \text{gross domestic product net} - \text{net domestic product} \\ &= 1900 - 1850 \\ &= 50\end{aligned}$$

$$\begin{aligned}\text{Gross national product} &= \text{national income} + \text{net indirect taxes} + \text{depreciations} \\ &= 1600 + 200 + 50 \\ &= 1850\end{aligned}$$

(d)

$$\begin{aligned}\text{Disposable Income household} &= \text{national income} + \text{household transfers} - \left[\begin{array}{l} \text{income not received} + \text{private} \\ \text{by household} \quad \quad \quad \text{taxes} \end{array} \right] \\ &= 1600 + 300 - (40 + 50 + 250 + 100) \\ &= 1460\end{aligned}$$

(e)

$$\begin{aligned} \text{National savings} &= \text{gross investments} + \text{net exports} + \text{net foreign factor income} + \\ &\quad \text{net foreign current transfers} \\ &= 300 + 200 + (-50) + 70 \\ &= 520 \end{aligned}$$

(Alternative methods can be used for calculations)

(10 marks)

- (II) (a) As net foreign factor income takes a minus value the national product takes a less value than the gross domestic product.
- (b) As stock change takes a minus value the gross domestic fixed capital formation takes a greater value than the gross domestic capital formation.
- (c) As the effect of the terms of trade is beneficial real national income takes a higher value than the real national product.
- (d) As the price level of the relevant year when comparing to the base year, the gross national product to the fixed price declines more than the gross national product to the current price.
- (e) As net exports takes a minus value gross domestic product takes a less value than the gross domestic expenditure.

(05 marks)

(III) (a) Economic activities that are not included in the formal statistics and purposely hidden economic activities are known as unobserved economic activities. These maybe illegal

- Payment business, cottage industry, chena cultivation.
- Drug production, prostitution.

(03 marks)

(b) Due to these economic activities national accounts may be devaluated.
The trust towards national accounts will go down.

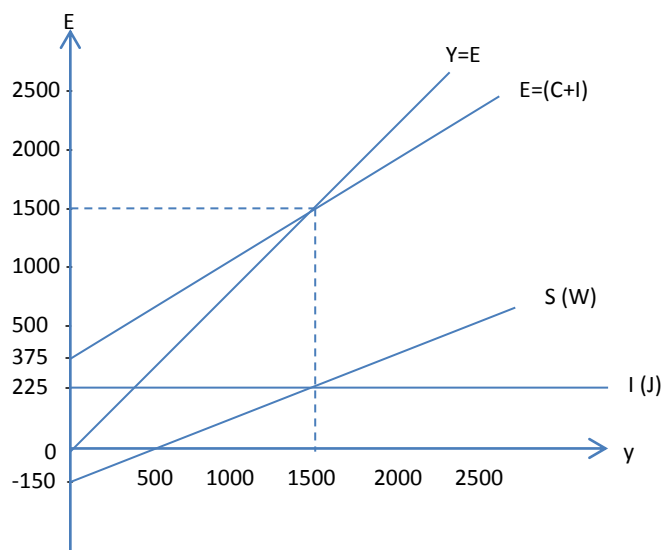
(02 marks)

(5). I (a)

$$\begin{aligned} Y &= C + I \\ Y &= 150 + 0.75y + 225 \\ Y &= 375 + 0.75y \\ Y - 0.75y &= 375 \\ Y &= \frac{375}{0.25} \\ Y &= 1500 \end{aligned}$$

(02 marks)

(b)



(02 marks)

(II) $Y = E$

(a) $Y = C + I + G$

$$Y = 150 + 0.75Y_d + 225 + 40$$

$$Y = 150 + 0.75(y + 40 - 60) + 225 + 40$$

$$Y = 415 + 0.75y - 15$$

$$Y - 0.75Y = 400$$

$$Y = \frac{400}{0.25}$$

(02 marks)

(b) $Y = 1600$

$W = J$	$S = -150 + 0.25 Y_d$
$S + (T - R) = I + G$	$S = -150 + 0.25 (Y + 40 - 60)$
$245 + (60 - 40) = 225 + 40$	$S = -150 + 0.25 (Y - 20)$
$265 = 265$ (01 marks)	$S = -155 + 0.25 Y$
	$S = -155 + 0.25 (1600)$
	$S = 245$

(01 marks)

(III) $K = \frac{1}{(1 - MPC)} = \frac{1}{(1 - 0.75)} = \frac{1}{0.25} = 4$

- $$\Delta Y = K \times \Delta I$$

$$600 = 4 \times \Delta I$$

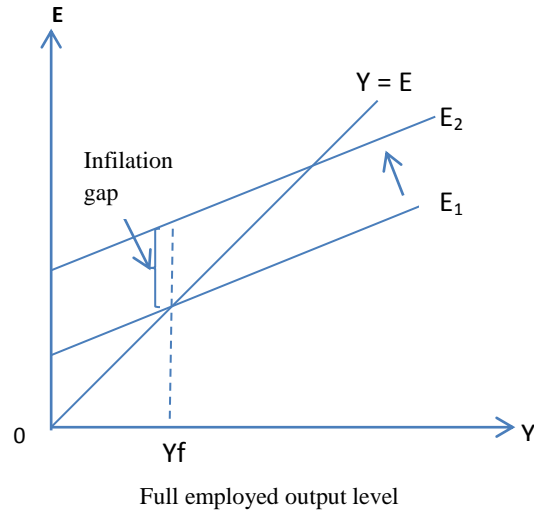
$$\frac{600}{4} = \Delta I$$

$$150 = \Delta I$$

the investment should be increased by 150

(04 marks)

(IV) (a)



(02 marks)

If the aggregate demand increases further to E_2 under the full employed equilibrium output level an increase of the price level will occur. (01 mark)

- (b) Consumption demand of the household.
Consumption demand of the government.
Demand for investment goods.
Net exports.
 $C + I + G + (X - M)$

(02 marks)

- (V) Disposable income.
Wealth owned by the household.
Price level.
Interest rate.

(03 marks)

(06).(I) Base money is several liabilities of the central bank based on the money supply in a country. That can be depicted as follows through the liabilities of the balance paper of the central bank.

1. Currencies – held by the public
held by the commercial bank
2. Commercial bank deposits owned by the central bank
3. Deposits of government representative institutions in the central bank

The relationship between the Base Money and the Money Supply.

Money supply is received when the stock of base money in the country is multiplied by the money multiplier.

$$\text{Money Supply} = \text{Base money} \times \text{Money multiplier} \quad (04 \text{ marks})$$

(II) Required reserve $500 \times \frac{20}{100} = 100$
existing reserve (real reserve) $= \frac{70}{30}$
Lack of reservers $= \frac{30}{100}$
Deposit multiplier $= \frac{1/20}{100} = 5$

Therefore deposits should be contracted by the amount of value that is received by multiplying the lack of reservers by the multiplier. Then the balance paper is as follows.

Deposits	350	Money reservers	70	
		Treasury bills	130	
		Loans & advances	<u>150</u>	
	<u>350</u>		<u>350</u>	(02 marks)

Multi deposit contraction is the process of declining the loan and deposits again from the value that is received multiplying the lack of resources by the deposit multiplier when there is a lack of resources in the banking system.

That is the process of declining the money supply from the amount of deposit multiplier as the lack of reserves. (02 marks)

(III) When there is an under liquidity level in the inter – banking call money market the interest rate is highly pressed upwards. If there is an excess liquidity a downward pressure is taken place. By this , the fluctuations of the interest rates in the call money market take place. (01 mark)

To create the stability of the interest rate in the call money market the central bank handles the re-purchasing and re-selling rates to restrict the range where the interest rate fluctuate. (01 mark)

Re – purchasing rate is the daily credit – taking rate of the central bank. It is the lower limited of the call money market. Re –selling rate is the daily credit issueing rate. It is the upper limit of the call money market. This interest rate gap is known as the interest rate corridor in the call money market. By handling that gap the normal interest rate of the inter bank call money market can be maintained in a stable level. (02 marks)

(IV) (a) - Price and economic stability
- Stability in the monetary system (02 marks)

(b) - Leading the monetary system
- Leading the foreign exchange policy
- Management of formal foreign reservs
- Issuing currencies
- Issuing lience to start financial institutions, piloting and supervising
- Providing clearing facilities for the fainancial institutions that maintain accoutans at the central bank
- Performing as the financial councillor, financial representative and the banker of the government

(03 marks)

(V) How the monetary policy is used to expand the aggregate demand of a country.

1. Declining the interest rate.
2. Declining the reserve rate.
3. Purchasing treasury bills by the central bank through open market operations.

(03 marks)

(07) (I) (a) Market failure is the inability of the market mechanism in distributing scarce resources for the betterment of the society. The reasons caused for that are,

1. Inefficiency in resource allocation.

- Not providing public goods.
- Externalities.
- Imperfect information.
- Imperfect competition.
- Excess use of public resources.
- Immobility of factors.

2. Inequity of income distribution.

3. Economic instability.

(01 mark)

Government failure is the tendencies in creating new problems that did not former prevail or growth of failures existed in the market system further to the depth, as a result of the involvement of the government in the economy to correct failures that occurred in the market mechanism.

Following reasons cause for the government failure,

- Rigidities in the government performance.
- Political self – interest.
- Short – sightedness of the government policies.
- Taking policy decisions on the imperfect information.
- Harmful effects on incentives.
- Increase in administrative expenditure.

(01 mark)

(b)

(a). Clock tower – a public good

- Non – rival in consumption.
- Non – excludable from consumption.

(b). ozone layer – universal public good

- Benefitted to the universal community.
- Non – excludable from consumption.
- Non – rival in consumption.

(c). Education – welfare good

- Existing of external benefits greater than private benefits.

(d). A swimming pool – a semi public good/ a quasi public good

- Non – rival in consumption upto the maximum capacity level.
- Excludable from consumption.

(e). Fish in the ocean – common resource

- Non – excludable from consumption.
- Rival in consumption.

(05 marks)

(II) Recycled fiscal policy is the process of changing taxes and government expenditure as required to the policy

makers to achieve macro economic goals without allowing the government expenditure and taxes to change automatically. Or the process of handling the government fiscal policy as they wish, to settle down fluctuations in the business cycles.

(01 mark)

The government against the recycled government fiscal policy are as follows.

1. Delay in identification.
2. Delay in administration.
3. Political self-interest.
4. Crowding - out effect.

(02 marks)

(III) (a)

Equity in the tax system is that the taxes should be charged on the basis of ability of paying amount of enjoying benefits. Taxes should be charged to create the equality. Following conditions should be fulfilled to create equity.

1. Horizontal equity

An equal amount of tax should be imposed on people who are with equal economic ability.

2. Vertical equity

An unequal burden of tax should be imposed on the people with unequal economic abilities.

(02 marks)

(b) Progressive taxes- taxes with a positive relationship between the tax base and the tax rate.

- Income taxes.
- Property taxes.

Regressive taxes - taxes with an inverse relationship between the tax base and the tax rate.

- Selected production taxes.

Proportional taxes – the tax rate charged constant whatever the tax base is

- Value added tax (VAT)

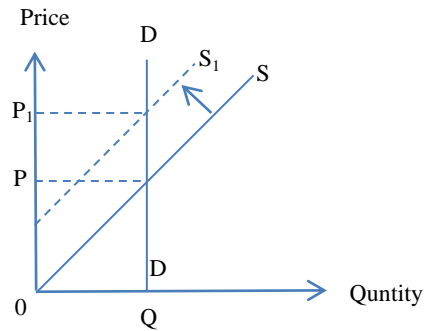
(03 marks)

(c) Excess burden of taxes means the dead weight loss due to the imposition of taxes. Two conditions should be fulfilled to create an excess burden.

1. ability of shifting the tax.
2. the tax can be adjusted.

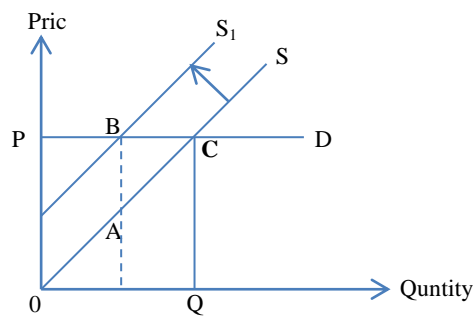
(01 mark)

The excess burden of taxes created by the tax imposition on goods depends on the demand and supply elasticities of the relevant good. When a tax is imposed on a good with a perfectly inelastic demand an excess burden does not create.



- An excess burden does not create.

When a tax is imposed on a good with a perfectly elastic demand an excess burden is created.



- An excess burden is created in the amount of ABC (02 marks)

(IV) Financing the budgetary deficit through domestic sources (as a percentage of gross domestic product) 3.5%

Financing the budgetary deficit through foreign sources (as a percentage of gross domestic product) 3.4% (in 2011) (02 mark)

Impacts of financing through domestic sources.

1. Creating an inflation due to the expansion of the money supply.
2. Creating a crowding – out effect.
3. Increase in the interest rate of the domestic market.

Impacts of financing through foreign sources.

1. Increase in the foreign debt service ratio
2. Temporary increase in the foreign value of money due to increase in foreign assets.
3. Emerging long term problems in the balance of payment. (01 mark)

(08). (I)

(a)

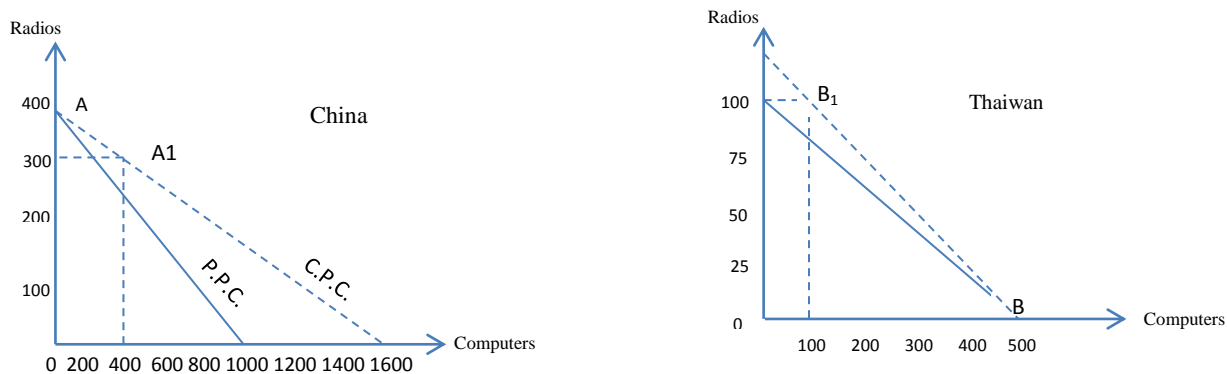
	China	Thailand
Opportunity cost of producing a radio	$10/4 = 2.5$	$5/1 = 5$
Opportunity cost of producing a computer	$4/10 = 0.4$	$1/5 = 0.2$

- The comparative advantage of producing a radio is to China. The reason is that the opportunity cost of producing a radio is comparative less.

- The comparative advantage of producing computers is to Taiwan. The opportunity cost of producing a computer is comparative less in Taiwan.

(If the opportunity cost is calculated and the country with the comparative advantage has been named 01 mark each – total 02)

(b)



China specialized on producing radios. Under full specialization China produces the product combination of A.

Taiwan specializes on producing computers. Under full specialization Taiwan produces the product mix of B.

(If the production possibilities frontier has been accurately draw and illustrate the product mix accurately stated 02 marks - 01 mark each)

- (c) China specialized on radio production exports 100 radios and imports 400 computers. The consumption combination has been illustrated as A₁. Accordingly the consumption ability of China shifts to the right side from the original PPC.

Taiwan which made specialization on computer production exports 400 computers and import 100 radios. The consumed combination shifts to B₁. Accordingly consumption possibilities curve shifts to the right.

(If the consumption combinations are correctly illustrated and the curve has been drawn correctly total 02 marks – 01 mark each)

- (d) China exports 01 radio and the amount of computers that are imported from Taiwan should be between 2.5 and .5.

Taiwan exports 01 computer and the amount of radios that are imported from China should be between 0.2 and 0.4.

(02 marks)

- (II) (a) Income account – a payment of income
 (b) Financial account – a long term government loan repayment.
 (c) In the current transfer account – a payment of private transfers.
 (d) In the service account – payment of business services

(Total 02 marks 01 mark each)

(III) As a result of imposing an import tariff the price of imported goods increases. Through the percentage of increasing price of that good a competitive good that is domestically produced receives safety. That is known as the nominal precautionary rate. This nominal precautionary rate can be declared as a price of the domestic good as a percentage of the price of imported good after the tariff, the differences between the value added of a competitive domestic production after the tariff and the value added of the domestic product (under the free trade) before imposing the tariff and forwarding that difference as a percentage of the value added of the domestic product is the effective precautionary rate.

$$\text{Effective precautionary rate} = \frac{\text{Value added of the domestic product after the tariff} - \text{Value added under the free trade}}{\text{Value added under the free trade}} \times 100$$

(Total marks 02 – 01 mark each)

(IV) **Advantages of fixed foreign exchange rate -**

- As the risk of often fluctuations of foreign exchange rate is removed the international trade develops.
- It is forced to keep the production cost in a low level to product the competition of exports. Therefore a discipline is created regarding the domestic economic management.
- Creating favourable effects on international capital investments and credit exchanges.
- Transferring affairs based on the expected changes of the foreign exchange do not occur.

Disadvantages of fixed foreign exchange rate -

- International stability has to be sacrificed for the external stability.
- If there is an under or over evaluation in the fixed exchange rate always has to face a balance of payment inequilibrium.
- To maintain the fixed foreign exchange rate monetary authorities have to maintain a large amount of foreign reservers.
- In a situation where the monetary authorities do not have sufficient foreign exchange reserve if there is a deficit of the balance of payment strict precautionary steps have to be followed and it would be harmful for the social welfare.

Advantages of normal foreign exchange rate

- As it an equilibrium foreign exchange rate that equalizes the demand and supply for foreign exchange and it does not create an excess or under evaluation.
- As it a real foreign exchange rate universal resources are efficiently distributed among alternative uses.
- As the internal stability does not need to be sacrificed to maintain the external stability economic management is easier when there is a flexible foreign exchange rate.
- As the monetary policy is totally free from the effects of external factors it can be freely used to strengthen the domestic economy.
- It is not necessary to maintain a large amount of foreign exchange reservers to maintain the foreign exchange rate.

Disadvantage of nominal foreign exchange tare

- Often fluctuations create obstacles for the development of the international trade.
- This causes for severe fluctuations as a result of encouraging speculations.
- It does not create an inspiration to maintain a macro economic discipline.
- It creates disadvantages for investors and credit customers.

(maximum marks 04 for two advantages and disadvantages of each foreign exchange system)

(V)

- South Asian Freedom Trade Agreement. (SAFTA)
- South Asian Association for Regional Co-operation. (SAARC)
- Multy Sectorial Technological and Economic Co –operation of countries around Bay of Bengalle. (BIMSTEC)
- Asian Pacific Economic Co-operation. (APEC)
- Indian Ocean Regional Association for Regional Co-operation. (IORARC)

(02 marks)

(09).(I) The economic growth is the long term expansion of the protetional output of the country or process that is created by inter-operation of demand, supply and efficiency.

Action suitable for economic growth

- Encouraging savings and investment.
- Encouraging foreign investments.
- Developing infra structure facilities.
- Investment for human capital development.
- Protect the rights of property.
- Political stability.
- Free tarde.
- Uplifting the expencess on researches and development.
- Declining taxes and piloting.

(04 marks)

(II) Total participation economic growth is achieving the high level of sustainable development in every section of the economy.

Under this growth the social groups who are away from the economic development process can join it. Accordingly everyone in the society can contribute towards the economic growth and gain benefits of it. This concept not only means redistribution of income but also it emphasizes increasing the ability of participation of people in economic activities and building up a business environment that is suitable to generate employment opportunities. This is different from the concept of re-distribution of income. Poor – friendly economic growth is a growth that increases the increasing rate of morderate income of poors greater than the increasing rate of moderate income of non –poors income. As a result of this income disparity will reduce.

(04 marks)

(III) Human development is the process of broadening the range of selections that expands the human abilities and tasks.

Human development is considered under three dimensions.

- Spending a long healthy life.
- Knowledge.
- Good standard of living.

Sustainable development is the process of fulfilling our needs without making obstacles for future generations to satisfy their needs. There are three sides of it.

- Economic development.
- Social development.
- Safety of environment.

(04 marks)

(IV) a

Year	Child development rate	Adult development rate	Development rate
2001	40.7	14.3	55.0
2006	37.4	16.2	53.6
2011	35.3	19.3	54.6

(02 marks)

(b)

- Decline of labour supply.
- Decline of savings and investments .
- Has to face fiscal difficulties.
- Increase in government loans.
- Decline of income.
- Has to bear a large cost on health services.

Following suggestions can be presented as solutions for the above problems.

- Increasing the number of working years.
- Launching reforms of pension salaries.
- Developing the field of health.
- Providing social safety benefits.
- Reforms in labour market.
- Other business policies.

(04 marks)

(V) Multidimensional poverty index is calculated by multiplying the average values of population poverty index and deprivation index.

Multidimensional poverty index = population poverty index X deprivation index

(02 marks)

(10) I .(a) Achieving 8% of average economic growth with the early ten years and thereafter achieving an economic growth of 10%. Maintaining the investment level as 32% -38% as a percentage of the gross domestic product.

(02 marks-01 mark for each)

(b) The average economic growth rate of Sri Lanka has been about 6.5% during the period of 2007-2011. And during the last year it has reached to the target of 8%.

(01 mark)

The investment rate was between 24.4 and 29.9 during the period of 2007-2011 . Even though it has not reached to the target there is a satisfactory tendency.

(01 mark)

(c)

- Aggravating balance of payment crisis.
- Depreciation of rupee.
- Increasing the burden of debts.
- Increasing the pressure on the budget.
- Slow private investments.
- Increasing of inflationary pressure.
- Backwardness of agriculture and power energy due to the weather conditions.

(03 marks)

II (a). The lack of capital means the gap between the investment and the domestic savings.

- Foreign direct investments.
- Foreign loans and aids.

(02 marks)

(b) Eventhough direct foreign investment that inflow to Sri Lanka during the last years showed an instability,

A favourable tendency is shown in 2011

Inflow of foreign direct investments in 2010 was 516 \$, 1066 \$ in 2011.

(01 mark)

However, when comparing foreign direct investments that inflow to countries such as India, Vietnam and China the investments that inflow to our country are in a low level.

(01 mark)

(c)

- Weakness in infrastructure facilities.
- Electricity problems.
 - (frequent power failures)
 - 80% of electricity is generated by generators.
 - 12% out of fixed assets is spent on purchasing generators.
- Limited space for financial facilities and excess cost expenditure.
- Macro economic instability
- Strict regulations regarding utilization of labour.
- High tax burden.
- Failure of good governance.
- Domestic market is limited.

- Uncertainty of government policies regarding private foreign investments. (Apolo hospital, shell gas company, experiences of Sri Lanka Aviation service)
- Increasing the production cost.

(03 marks)

(III) (a) Total poverty has declined. There are disparities in sectorial and regional level

Sector	1990/1991	1995/1996	2002	2006/2007	2009/2010
Rural	29.4	30.9	24.7	15.7	9.4
Urban	16.3	38.4	7.9	6.7	5.3
Estate	20.5	14.0	30.0	32.0	11.4
Sri Lanka	26.1	28.8	22.7	15.2	8.9

(02 marks)

(b) Social safety net work programmes

- Jana saviya
- Samurdhi

Providing transfers to low-income holders.

- Food stamp
- Mahapola student aids.

Social safety strand programmes.

- Micro finance
- Strengthening of females.

Regional development programmes.

- Pubudamu Wellassa.
- Uthuru Wasanthaya.
- Negenahira Navodaya.

National level programmes

- Maga Naguma
- Gama Neguma
- Gemi Diriya/ Divi Neguma
- Nena sala

(02 marks)

(c) **Weaknesses of the Smurdhi programme.**

- Selection of benefits is not accurately targeted.
(Even though the percentage of poor population of the country has recorded as 8.9% , 30% out of population receive samurdhi Aids.)
- Political interference when selecting benefit holders.
- Shortcomings of the institutional structure (Excess expenditure has to be incurred due to the very large administrative structure)
- Weaknesses of the co-ordination among various projects of Samurdhi programmes.
- Weakening of the ability of maintaing the programmes firmly. (depends on the sponsorship of the government)
- Creating a dependant culture.

(02 marks)