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Provincial Department Of Education.Northern Province

Third Term Examination - July 2026

Grade:-12 (2027)	21 - Economics -I,II	Three Hours 10 Minutes

Instructions:

- In Question Paper I, choose the most appropriate answer for all multiple-choice questions from 1 to 20.
- In Question Paper II, choose two questions from Part "A" and two questions from Part "B", and answer a total of four questions.

Part I

1. An economic analyst states that during the US-Iran war, Sri Lanka should follow a neutral foreign policy, otherwise its export markets will be affected. Which of the following is a Normative Statement?
   (1) World trade is affected by the US-Iran conflict.
   (2) Sri Lanka's export revenue may decrease.
   (3) Uncertainty increases in global markets.
   (4) Sri Lanka should follow a neutral foreign policy.
   (5) Shipping insurance costs increase due to the war.

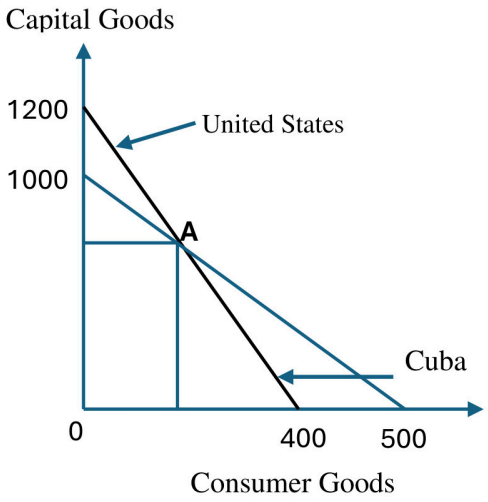
2. As a firm introduced an artificial intelligence-based analysis method, machine downtime decreased. As a result, the utilization rate of invested fixed capital increased. What is the most correct economic explanation for this situation?
   (1) The opportunity cost of capital has decreased.
   (2) The marginal product of capital has become zero.
   (3) The efficiency of capital has risen, and the average product has increased.
   (4) The demand for labor has completely disappeared.
   (5) The demand for labor has increased.

3. In a country, private enterprises freely engage in production activities for profit. At the same time, the government attempts to control market failures through social security programs, unemployment relief, medical assistance schemes, and anti-trust laws. Based on this situation, what type of economic system would this country have?
   (1) A socialist economy based completely on state ownership of production resources.
   (2) A social market economy that combines social welfare and the market mechanism.
   (3) A command economy with no room for consumer preferences.
   (4) An economy where production decisions are made through traditional customs.
   (5) A pure capitalist economy completely devoid of government intervention.

4. Initially, the production possibility curve of an economy was concave to the origin. Later, due to the introduction of artificial intelligence and automation technology in the production sector, certain resources were used with equal efficiency across many products. As a result, the shape of the production possibility curve changes into a straight line. In this situation:
   (1) All resources become suitable for only one type of production.
   (2) Scarcity of resources is completely eliminated.
   (3) The production possibility curve shifts to the left.
   (4) Opportunity cost changes from an increasing nature to a constant cost.
   (5) As specialization of resources increases, the opportunity cost rises rapidly.

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5. The following graph shows the production possibility curves of two countries, the United States and Cuba, which produce capital goods and consumer goods. If both countries produce at point A where their curves intersect, the units obtained for capital goods and consumer goods are:



	Capital Goods	Consumer Goods
(1)	200	300
(2)	600	400
(3)	1000	400
(4)	600	200
(5)	600	300

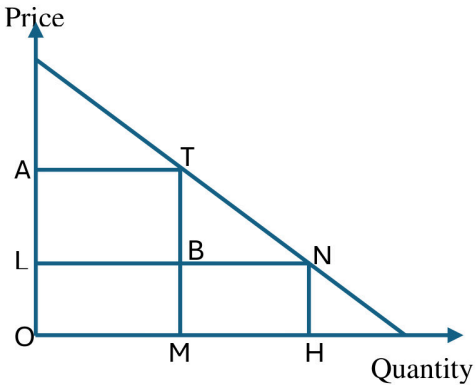
6. A change in the price of a commodity causes a decline in the quantity of that commodity. For this to definitely occur, what must be the nature of the commodity and the direction of the price change?

	Nature of the Commodity	Price Change
(1)	Giffen good	Increase
(2)	Normal good	Increase
(3)	Normal good	Decrease
(4)	Inferior good	Decrease
(5)	Social status good	Increase

7. Goods X and Y are substitutes for each other. A decrease in the resources of good Y will have what effect on the equilibrium price and equilibrium quantity of good X?

	Price of X	Quantity of X
(1)	Decrease	Decrease
(2)	Decrease	Increase
(3)	Increase	Decrease
(4)	Increase	Increase
(5)	Decrease	No change

8. The graph shows the demand curve for a commodity. If the area of OATM and the area of OLNH are equal to each other, then:



(1) If the price rises from OL to OA, total revenue will decrease.
(2) If the price rises from OL to OA, consumer surplus will increase by LATN.
(3) At both prices OA and OL, the price elasticity of demand is unitary elastic
(4) A decrease in price from OA to OL will cause the same proportional decrease in quantity demanded.
(5) In the price range AL or at the midpoint, the price elasticity of demand is equal to one.

9. In a study, the cross-price elasticity of demand between butter and margarine was found to be **+3**. If the price of margarine decreases by **15%**, what change will occur in the demand for butter?

(1) 15% increase (2) 30% increase (3) 45% decrease
(4) 45% increase (5) No change will occur

10. At the same time that the demand for a commodity increases, its production cost also increases. As a result, what can be stated with certainty regarding the market equilibrium?

(1) Equilibrium [quantity] will definitely decrease.
(2) The equilibrium quantity will definitely rise.
(3) The equilibrium price will definitely rise.
(4) The equilibrium quantity will not change.
(5) The supply curve shifts to the right and the demand curve shifts to the left.

11. If the Jaffna Municipal Council imposes a rent control law fixing the house rent Rs. 7000 below the equilibrium rent in the area under its authority:

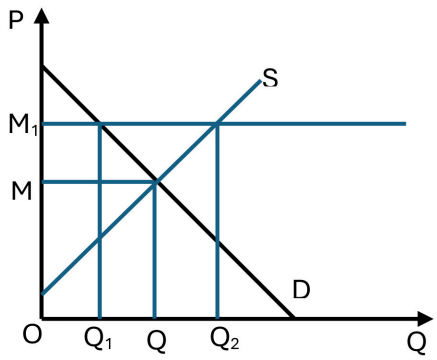
(1) The quantity of housing supplied will increase.
(2) Low-income poor people will be able to get the required amount of housing at a lower rent.
(3) The deadweight loss **(DWL)** existing in the rental housing market will be eliminated.
(4) Even though a change occurs in the equilibrium of rental housing, economic surplus will remain unchanged.
(5) The quantity of housing demanded will increase.

12. In the **"Grapes"** market, the government sets a minimum price control (price floor) above the equilibrium price and purchases the surplus supply created in the market itself. In this situation, which of the following is the most correct outcome?

(1) Both consumer surplus and producer surplus will definitely increase.
(2) The market equilibrium will continue without change.
(3) Government expenditure will increase, creating an artificial incentive for production.
(4) The supply of grapes will decrease, and a shortage will arise.
(5) A situation with absolutely no opportunity cost will arise.

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13. The government has fixed the maximum price (price ceiling) as OM_1. As a result, which of the following would have occurred?



(1) A guarantee for the supply of OQ2 will exist
(2) It will maintain the OQ level as the market equilibrium quantity
(3) The amount MM_1 will express the need for government subsidy.
(4) It will export the OQ quantity of production.
(5) It will cause a situation where the government has to purchase the quantity Q_2Q_1.

14. While the size of an agricultural land remains constant, additional workers are continuously added. After a certain point, the marginal product begins to decrease. What is the most correct reason for this?
    (1) Worker efficiency decreases automatically.
    (2) Market demand decreases.
    (3) Average product always becomes negative.
    (4) Opportunity cost becomes zero.
    (5) Factors like land and capital, being fixed factors, become relatively scarce.

15. Choose the correct statement from the following:
    (1) The marginal cost curve never intersects the average total cost and average variable cost curves through their lowest points.
    (2) Total fixed cost is shown through the slope of the marginal cost curve.
    (3) When the average cost curve goes upward, the marginal cost curve lies below the average cost curve.
    (4) The marginal cost curve always intersects the average total cost and average variable cost curves through their lowest points.
    (5) The average fixed cost curve is a downward-sloping straight line from top to bottom.

16. In an industry, firms earn only normal profit in the long run, but each firm continuously incurs advertising expenditure to differentiate its product. Furthermore, the demand curve faced by the firm is a normal downward-sloping demand curve. The correct explanation for this situation is:
    (1) This is a perfectly competitive market because it earns only normal profit in the long run.
    (2) This is a monopoly market because the demand curve is a normal demand curve.
    (3) This is an oligopoly market because advertising is present.
    (4) This is a monopolistically competitive market because product differentiation and free entry coexist.
    (5) This is a duopoly because price control is present.

17. The following activities take place in a country:
    A. A housewife taking care of her child at home.
    B. Providing free treatment in a government hospital.
    C. A farmer producing rice for his family's consumption.
    D. Repairing a motorcycle for a friend free of charge.
    E. A firm developing software for the market.
    Which of these fall within the production boundary in national accounting?
    (1) Only C, B and C (2) Only B, C and E (3) Only B, D and E
    (4) Only A, C, D and E (5) All of the above

18. An entrepreneur runs a bakery in a building owned by himself. The wages, electricity bills, and raw material costs he pays monthly amount to Rs. 450,000. If the same building were rented out, Rs. 120,000 would be received. If the entrepreneur worked in another company, he could earn a salary of Rs. 80,000.
    Which of the following statements is correct regarding this situation?
    (1) Explicit cost is Rs. 650,000
    (2) Implicit cost is Rs. 200,000
    (3) Total economic cost is Rs. 450,000
    (4) Explicit cost < Implicit cost
    (5) Raw material cost is included in implicit cost

19. The following information is given about a country's economy (all data in millions):

Private consumption expenditure	850
Investment expenditure	250
Government expenditure	300
Exports	180
Imports	220
Net factor income from abroad	40
Consumption of fixed capital	60

According to the above information,

	Gross Domestic Product	Gross National Income	Net Exports
(1)	Rs. 1400 mill	Rs. 1360 mill	Rs. 180 mill
(2)	Rs. 1360 mill	Rs. 1340 mill	Rs. -40 mill
(3)	Rs. 1340 mill	Rs. 1400 mill	Rs. -90 mill
(4)	Rs. 1250 mill	Rs. 1360 mill	Rs. 400 mill
(5)	Rs. 1360 mill	Rs. 1400 mill	Rs. -40 mill

20. In a simple economy without government activity, when income was 1000 million, consumption expenditure was 800 million, and when income increased to 1500 million, consumption expenditure was 1100 million. The marginal propensity to consume (MPC) and the average propensity to consume (APC) at 1000 million income of this economy are respectively:

(1) 0.06, 0.8
(2) 0.75, 0.6
(3) 0.6, 08
(4) 06, 0.4
(5) 0.25, 0.75

(1x20=20 Marks)

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Part II

Answer a total of four questions, choosing at least two questions from each of Part A and Part B

Part "A"

01.

1. State the consequences that could arise if economic resources are not managed efficiently. (4 Marks)
2. "Capital alone cannot carry out production." Analyze this statement by relating it to economic resources. (4 Marks)
3. Each of the following statements indicates what change will occur in the production possibility curve due to the US-Iran conflict. State whether these statements are true or false, and explain with reasons.
   A. Due to the US-Iran conflict, global oil prices will rise sharply, causing production to take place inside the production possibility curve.
   B. Because some countries increase defense spending and expand military production, a movement will occur from one point to another on the production possibility curve.
   C. Due to international trade sanctions, the import of raw materials will decrease, causing the production possibility curve to shift to the left.
   D. As oil-importing countries successfully introduce alternative energy technology, the production possibility curve will shift to the left. (4 Marks)
4. State the reasons why economists mention that mixed economies are suitable for developing countries. (4 Marks)
5. What is human capital? State the methods to improve it. (4 Marks)

02.

1) List the factors that determine the market supply of groundnut oil. (4 Marks)
2) The following table shows the relationship between the price of a straight-line demand curve of a specific commodity and its market quantity demanded:

Price	Quantity Demanded (Metric Tons)
0	200
20	150
40	100
60	50
80	0

a. Here, what will happen to the producer's revenue when the price of the specific commodity decreases from 60 to 40, and when it increases from Rs. 20 to Rs. 40? What is the reason for it? (4 Marks)
b. At what price will the seller's revenue be maximized? (2 Marks)
c. Suppose only one firm holds the license to produce this commodity. If that firm supplies a fixed quantity of 50 metric tons, what will be the equilibrium price and quantity? (2 Marks)

3) State the characteristics after a unit tax is imposed on a commodity with perfectly inelastic demand (4 Marks)
4) State four factors that can make the demand for a commodity highly inelastic. (4 Marks)

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03.

1) What is meant by a price ceiling? What are the economic consequences of imposing a price ceiling? (4 Marks)

2) State whether each of the following statements is true or false, and mention the reason for it.
   A. In a market with inelastic demand, the burden of an indirect tax is mostly borne by the consumer
   B. If the increase in supply is greater than the increase in demand at equilibrium, there will be downward pressure on price
   C. For market equilibrium to be formed, the minimum supply price must be higher than the maximum demand price.
   D. If both demand and supply have elasticity equal to one, taxation will have no impact on market equilibrium (4 Marks)

3) Suppose a price floor policy fixed by the government is implemented under a price support scheme by purchasing the surplus supply. In this situation, indicate the areas of social welfare loss and deadweight loss caused by government intervention on a diagram (4 Marks)

4) The demand and supply equations for "Anchovy" fish are as follows:

   QD= 60-2P
   QS=-15+3p
   Suppose the government imposes a unit tax of Rs. 5 on the producer of this commodity. After the tax:

   a. What is the consumer surplus? (4 Marks)
   b. What is the deadweight loss? (4 Marks)

Part "B"

04.

1. Explain explicit cost and implicit cost, and give examples (4 Marks)
2. Analyze the relationship between a firm's marginal cost and variable cost. (4 Marks)
3. (a) Explain Price Maker and Price Taker. (2 Marks)

   (b) The data regarding the short-run production behavior of a perfectly competitive firm are as follows:

Output	500 units
Average Revenue	Rs. 50
Average Total Cost	Rs. 80
Average Fixed Cost	Rs. 30

   1. What is the profit or loss incurred by the firm? (3 Marks)
   2. Will the firm continue to operate in the industry or not? What is the reason? (3 Marks)

4. What are the differences between a perfectly competitive market and a monopolistically competitive market? (4 Marks)

05.

1) In national accounting, under which institutional sectors will the following institutions be classified?

A. Insurance Corporation
B. Cargills Food City
C. Colombo Municipal Council
D. World Bank
E. Department of Examinations, Sri Lanka (4 Marks)

2) In national accounting, "investment expenditure is an important determinant of economic growth." Explain this by relating it to the expenditure approach of national accounting. (4 Marks)

3) What are the objectives that a country expects to achieve through its aggregate economic activity? (4 Marks)

4) The following data are related to national income accounting. Answer the following questions based on the data:

Data	Rs. Millions
Private consumption expenditure	4000
Gross domestic capital formation	500
Consumption of fixed capital	100
Change in inventories	50
Government purchases	150
Net exports	50
Net primary income from abroad	300
Net secondary income from abroad	200

Calculate:

a. What is the Gross Domestic Expenditure?
b. What is the Gross Domestic Product?
c. Net National Income?
d. National Disposable Income? (8 Marks)

06.

1. Differentiate between autonomous consumption and induced consumption. (4 Marks)
2. Explain aggregate expenditure of an economy. What are the components included in it? (4 Marks)
3. Assume the marginal propensity to consume (MPC) of a hypothetical economy is 0.8. Calculate the value of the transfer multiplier of this economy, and calculate the increase in equilibrium income if government transfer payments increase by Rs. 300 million. (4 Marks)
4. The macroeconomic variables of a closed economy with a government sector are given to you (all data in million rupees):

Consumption (C)= 200 + 0.8yd
Investment (I)= 100
Government Expenditure (G) = 200
Taxes (T)= 100

a. What is the equilibrium national income level? (4 Marks)

b. What is the amount of consumption and savings at equilibrium? (4 Marks)

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