Boot-Camp Assessment [Paper 1]		Sub-sections (A)	
Issued On:	10th June 2021	Exam Year [Batch]	**2022**
Deadline:	14th June 2021	Format	**Virtual**
Marks : Time	**50 marks : 1 Hour**	Units - Essentials Covered	**1 – 4**

(01) Both households and societies face many decisions because,

1) Population may increase or decrease over time.
2) Wages for households and society fluctuate with business cycles.
3) Resources are scarce.
4) People by nature tend to disagree.
5) Inflation in the economy.

(02) If buyers expect the price of a consumer durable to rise in the future, the result is

1) A decrease in supply today
2) An increase in supply today
3) A decrease in quantity demanded today
4) An increase in demand today
5) An increase in quantity demanded today

(03) Each point along the market demand curve shows

1) The quantity of the good that firms would be willing and able to supply at a specific price
2) The relationship between the price of the good and total quantity demanded at a series of prices
3) The opportunity cost of supplying a given quantity of goods to the market
4) The quantity of the good that consumers would be willing and able to purchase at a specific price
5) How population changes affect the quantity demanded at a specific price

(04) On a given country's production possibility curve

1) Technology keeps changing
2) The output one product can be increased without a decrease in the other
3) Production factors are not fully utilized
4) Available resources are fully utilized
5) There is a production inefficiency within the economy

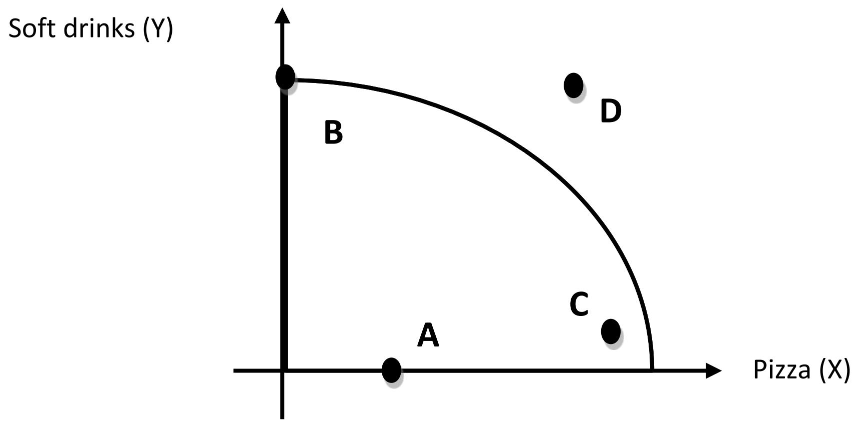
(05) The table below shows the production possibilities of a farmer who uses all his resources to produce paddy and corn, at a given time.

Paddy (Bushels)	Corn (Bushels)
0	55
10	50
20	42
30	28
40	0

Suppose the farmer currently procedures 20 bushels of paddy and 42 bushels of corn. According to the above table, the opportunity cost of 10 more bushels paddy is

1) 5 bushels of corn
2) 8 bushels of corns
3) 14 bushels of corn
4) 1.4 bushels of corn
5) 28 bushels of corn

An economy produces two goods Pizza (X) and Soft drinks (Y). The diagram shows the economy's production possibility frontier. Use the diagram to answer questions (06) – (07).



(06) In the diagram, which labeled point indicates that there are sufficient resources and technology to produce the combination of goods represented by that point?

1) Only A
2) Only B and C
3) Only D
4) A, B and C
5) Only B

(07) In the diagram, which labeled points represent the existence of unemployment?

1) Only A
2) Only B and C
3) Only D
4) A, B and C
5) Only A and D

(08) If production factors are perfectly substitutable among all economic activities

1) The output of all products can be increased
2) The production possibility curve becomes linear
3) There will not be any possibility for specialization and mutually beneficial trade to occur
4) Any person or country will not be able to attain a comparative advantage on any activity
5) The scarcity of resources can be eliminated

(09) The price elasticity of demand is the:

1) Change in quantity demanded divided by the Rupee change in price.
2) Percentage change in quantity demanded divided by the percentage change in quantity supplied.
3) Percentage change in quantity demanded divided by the percentage change in price.
4) Percentage change in price divided by the percentage change in quantity demanded.
5) None of the above.

(10) The value of a good to a consumer depends on,

1) Its total utility.
2) The marginal utility of the first unit consumed.
3) The average utility of the units consumed.
4) The marginal utility of the last unit consumed.
5) The ratio of its marginal utility to total utility.

(11) Kamal is considering attending a concert with a ticket price of Rs.3,000. He estimates that the cost of driving to the concert venue and parking there will total an additional Rs.500. In order to attend the concert, Kamal will have to take time off from his part-time job. He estimates that he will lose 5 hours at work, at a wage of Rs.100 per hour. Kamal's opportunity cost of attending the concert equals,

1) Rs.3,000
2) Rs.3,500
3) Rs.500
4) Rs.1,000
5) Rs.4,000

(12) A person is trying to decide whether to buy an additional bottle of soft drinks. This is an example of;

1) Opportunity cost.
2) A marginal decision.
3) Irrational decision making.
4) Insatiability.
5) Scarcity.

(13) Which of the following would cause the demand for a product to shift to the right?

1) An increase in the price of a complementary good.
2) An increase in the price of a substitute good.
3) A decrease in the price of a substitute good.
4) An increase in a cost of production.
5) An increase in the price of the product.

(14) Assume that the market for computers begins in equilibrium. Then, there is a decrease in a price of Intel processors used in the production of computers. When the new equilibrium is reached,

1) The price and quantity of computers will both have risen.
2) The price and quantity of computers will both have fallen.
3) The price and quantity of computers will both remain unchanged.
4) The price of computers will have risen and the quantity will have fallen.
5) The price of computers will have fallen and the quantity will have risen.

(15) Opportunity cost means the,

1) Accounting cost minus the marginal cost.
2) Highest-valued alternative forgone.
3) Accounting cost minus the marginal benefit.
4) Monetary costs of an activity.
5) Foregone benefits when making a choice.

(16) Which one of the following would increase the amount of an inferior good that buyers would like to purchase?

1) An increase in buyers' incomes
2) An increase in the price of a complement
3) A decrease in the price of a substitute
4) A decrease in buyers' incomes
5) A decrease in its expected future price

(17) If the price elasticity of demand for special fragranced detergent is -3.0, then a

1) 12 percent drop in price leads to a 36 percent rise in the quantity demanded
2) 12 percent drop in price leads to a 4 percent rise in the quantity demanded
3) Rs.100 drop in price leads to a 300-unit rise in the quantity demanded
4) Rs.100 drop in price leads to a 33-unit rise in the quantity demanded
5) 12 percent rise in price leads to a 36 percent rise in the quantity demanded

(18) If a compassionate social planner chooses to produce more than the equilibrium quantity of a good, then;

1) The value placed on the last unit of production by buyers exceeds the cost of production.
2) The cost of production on the last unit produced exceeds the value placed on it by buyers.
3) Consumer surplus is maximized.
4) Total surplus is maximized.
5) Producer surplus is maximized.

(19) If a buyer is willing to pay for a Laptop is Rs. 200,000 and she is able to actually buy it for RS. 180,000, her consumer surplus is?

1) Rs. 180,000.
2) Rs. 200,000.
3) Rs. 20,000.
4) Rs. 0.
5) Rs. 380,000.

(20) The burden of a tax falls more heavily on the buyers in a market when,

1) Both supply and demand are inelastic.
2) Demand is elastic and supply is inelastic.
3) Both supply and demand are elastic.
4) Demand is inelastic and supply is elastic.
5) Depends on the nature of the product.

(21) All of the following are methods that firms in an oligopolistic industry may use to create entry barriers, except:

1) The proliferation of brands.
2) Investing in advertising so that entering firms face a high cost of entering the market.
3) Limit pricing.
4) Substantial "natural" economies of scale in production.
5) All of the above are methods firms may use to deter entry.

(22) Short run cost curves are 'U' shaped due to:

1) Increasing input prices.
2) Increasing marginal product.
3) Decreasing marginal product.
4) The returns to specialization of labour that occurs at low production levels and the congestion that occurs at high production levels.
5) The returns to specialization of labour that occurs at high production levels and the congestion that occurs at low production levels.

(23) Collusion in oligopolistic markets will lead to:

1) Firms setting price where industry marginal revenue is equal to marginal costs and supernormal profits being earned.
2) Firms setting price where industry marginal revenue is equal to marginal costs, and normal profits being earned.
3) Firms setting price equal to average total cost, and supernormal profits being earned.
4) Firms setting price equal to average total cost, and normal profits being earned.
5) None of the above situations.

(24) Monopoly erodes the consumer surplus that would exist under perfect competition. The element of consumer surplus that is totally eliminated is called the:

1) Efficiency loss.
2) Deadweight loss.
3) Value loss.
4) Permanent loss.
5) Marginal loss.

(25) Average cost is:

1) Variable cost.
2) The cost of producing an additional unit of output.
3) The total average fixed cost plus the average variable cost per unit.
4) The minimum manufacturing cost.
5) The difference between the fixed and variable cost.

MCQ Answer Summary

Question	Answer	Question	Answer
01	3	16	4
02	4	17	1
03	4	18	2
04	4	19	3
05	3	20	4
06	4	21	4
07	1	22	3
08	2	23	1
09	3	24	2
10	4	25	3
11	3		
12	2		
13	2		
14	5		
15	2		

Boot-Camp Assessment [Paper 1] SA		Sub-section (B)	
Issued On:	10th June 2021	Exam Year [Batch]	**2022**
Deadline:	14th June 2021	Format	**Virtual**
Marks : Time	**50 marks : 1 ¼ Hour**	Units - Essentials Covered	**1 – 4**

Question [01]

(A) **Distinguish** between human **'Needs'** and **'Wants'** [03 marks]

Human needs refer **essential or necessary requirements** to live one's life in a socially acceptable manner, as a human being. Needs tend to be **material or physical** in nature such as food, clothes, transportation, as well as **psychological (Emotional)** such as self-esteem, respect, love, recognition.

[01 mark]

Wants refer to the **different ways** and **means of fulfilling needs**, and improving the satisfaction received in the process of fulfilling such needs. Unlike needs wants are tend to be **unlimited** and **diverse in nature**.

[01 mark]

Limited human needs tend to derive unlimited human wants. As an example the if the need is clothes, wants tends to be different types of clothes such as shirts, T-shirts, denims, long pants, and shorts pants ets.

[01 mark] [Total 03 marks]

(B) **Define** and **classify 'economic resources'** [04 marks]

Productive resources (or production resources) which are scarce or **limited in supply** in **relation to unlimited** (infinite) **wants** of the society are termed as economic resources.

Opportunity cost is positive (or there is an opportunity cost involved) with regards to economic resources. The use of an economic resource for one purpose or activity, shall essentially (always) result in a foregoing or trade off another activity or potential use.

[02 marks]

In the study of economics, such economic resources are generally classified in to four main categories:

Land, Capital, Labour and Entrepreneurship
Alternatively: Property Resources [natural resources, capital]
Human Resource [labour, entrepreneurship]

[02 marks, total 04 marks]

(C) **Outline** the difference between a **'Consumer good'** and a '**Capital good'**

[03 marks]

Consumer Goods

- **Goods which are not used to produce other goods, rather for final use of (personal) consumption**
- Can be both durables and non-durable in nature
- General examples include:
  Food items, medicine, clothes, consumer electronics, personal accessories

[1 marks]

Capital Goods

- **Goods used to produce other goods**
- Capital goods are produced, and are used in the process of producing consumer goods
- Capital good tend to be durable assets, subject to depreciation
- Generally examples:
  Commercial buildings, machinery, equipment, commercial vehicles ...]

[1 mark]

A certain good can be both a capital and consumer goods, this is because the capital or consumer nature of a good essentially depends on the 'usage' of the good.

[01 mark, total 03 marks]

Question [02]

(A) **Explain** the concept of **opportunity cost** and describe how it relates to the **problem of choice** between **alternative uses** and **scarce resources.**

[04 marks]

Opportunity cost refers to the value of the next or second best alternative foregone on which resources could have been allocated in the process of producing or consuming a good or service.

[01 mark for definition]

- Opportunity cost is subjective, i.e. only the individual can estimate the expected value of the best alternative forgone.
- Opportunity cost consists of both direct and indirect (implicit) cost components.
- Opportunity cost is measured in physical units, not monetary units, therefore it is sometimes called real opportunity cost to distinguish it from money cost.

[01 mark for including at least one of the above features]
[Total 04 marks]

(B) What is **Production Possibilities Frontier (PPF)** ? List the **assumptions** you make when you draw a production possibilities frontier.

[06 marks]

A production possibilities curve represents a line drawn by connecting the **maximum alternative output combination** of **two products** (or product categories) which can be produced at a **given point of time**, when a given economy's total **resource endowment** is **utilised** at **productive efficiency**, under the **existing technology**.

Alternatively:

A production possibilities frontier is a curve *(linear or non-linear in nature)* drawn by combining or linking **alternative** output **combinations** of **two** particular **goods** or **services** a given country is **able to achieve** on a **maximum sustainable basis**, during a **given** period of **time** using its **stock of resources** with **productive efficiency** (i.e. using resources at full employment and full production), under a **given** state of **technology.**

[02 marks]

A production possibilities frontier is constructed or drawn based on the following **principal assumptions:**

- ✓ The **stock of resources** available within the economy during the **given period of time** is expected to **remain fixed**, both in terms of **quality** and **quantity**
- ✓ The **technology** which is used to produce goods and services is **held constant** during the **given period of time** under consideration.
- ✓ The economy shall function at **'productive efficiency'** (a combination of **full employment** of resources and **full production**)
- ✓ The economy shall produce **alternative combinations** of **only two goods** (two types or categories of goods), within a **given period of time**.

[01 mark each, maximum 04 marks]

Question [03]

(A) **Distinguish** between **'Wants'** and **'Demand'** **[02 marks]**

Wants represent the **<u>unlimited willingness or desire</u>** within individuals to consume goods and services to fulfil different needs. Due to the **limited nature of resources** or **means,** an individual can only attain or fulfil a **limited number** of such **unlimited wants.**

[01 mark]

Demand represents the **<u>selected unlimited wants</u>** which individuals have made a **decision to satisfy,** supported by the required **<u>purchasing power</u>.** The quantity demanded represents quantities of a certain good a consumer (s) are planning to purchase at a given price. Accordingly 'demand' implies or consists of three main factors:

- The consumer **<u>wants</u>** or desires the given product
- The consumer has the **<u>ability to purchase</u>** the given product
- The consumer have **<u>planned</u>** to purchase the given good or service

[01 mark] [Total of 02 marks]

(B) **List** the main **factors** that **determine** the **consumer demand** for a good

- The product's own **price** (Price of the product under consideration)
- The **price** of **related products** (price of substitute and complementary goods)
- **Income**
- **Taste** and preferences
- **Number** of **consumers** or buyers
- Other relevant factors (social and demographic factors, natural, man-made..)

[01 mark each, total 04 marks]

(C) What **factors** are **held constant** in drawing a **market supply curve?**

- Price of related products (price of production substitutes)
- Price of the production factors used to produce the product (Cost of production)
- Expected future price
- Technology
- Government policies: Taxes and subsidies
- Number of suppliers or producers
- Weather conditions and other relevant factors

[01 mark each, total 04 marks]

Key: if **price** of the product (or **product's own price**) is mentioned, no (zero) marks will be allocated for the entire question.

Continued….

Question [04]

(A) Briefly explain what is meant by **price elasticity of demand** and **price elasticity of supply,** and **state** how such elasticities are **estimated?**

[04 marks]

The price elasticity of demand (PED) measures the sensitivity or responsiveness shown by quantity demanded of a given product, to a change in its price.

[01 mark]

Price elasticity of demand is estimated by dividing the percentage (or proportionate) change in quantity demand, by the percentage (or proportionate) change in price, inducing such change in quantity demanded. This can be estimated / expressed as follows.

$$\textbf{PED} = \frac{\textbf{Percentage Change in Quantity demanded}}{\textbf{Percentage Change in Price}}$$

PED is also known as 'Own Price Elasticity of Demand'

[01 marks] [Sub-total 02 marks]

The price elasticity of supply (PES) measures the sensitivity or responsiveness shown by quantity supplied of a given product, to a change in its price.

[01 mark]

Price elasticity of supply is estimated by dividing the percentage (or proportionate) change in quantity supplied, by the percentage (or proportionate) change in price, inducing such change in quantity supplied. This can be estimated / expressed as follows.

$$\textbf{PED} = \frac{\textbf{Percentage Change in Quantity supplied}}{\textbf{Percentage Change in Price}}$$

PED is also known as 'Own Price Elasticity of Supply'

[01 marks] [Sub-total 02 marks]
[Total 04 marks]

(B) **What** is meant by a **'Market in Equilibrium'** **[02 marks]**

An equilibrium level of exchange is created in a situation where the purchasing plans of buyers [**intended demand**] and sales plans of suppliers [**intended supply**] reach a certain agreement. Market equilibrium comes at the **price** at which **quantity demanded** (intended) **equals quantity supplied** (intended).

At that equilibrium, there is no tendency for the price to rise or fall. The mechanism that creates an equilibrium situation in a market by increasing and decreasing price through market demand and supply forces is the '**price mechanism or system'**.

[Total 02 marks]

(C) The market demand and supply equations for a given product traded in a competitive market is given bellow:

Qd = 100 – 2P　　　　Qs = 3P

(I) Estimate the market equilibrium price and quantity using the above equations

(II) Present the market equilibrium diagram for this product

[02 marks each]

(I)

Step (1):

Qd = Qs

100 – 2P = 3P

100 = 3P + 2P

$\underline{100} = \underline{5P}$

5 = 5

P = 20

Step (2):

P = 20:

Qd = 100 – 2P

= 100 – (2 x 20)

= 100 – 40

= 60 Units

P = 20:

Qs = 3P

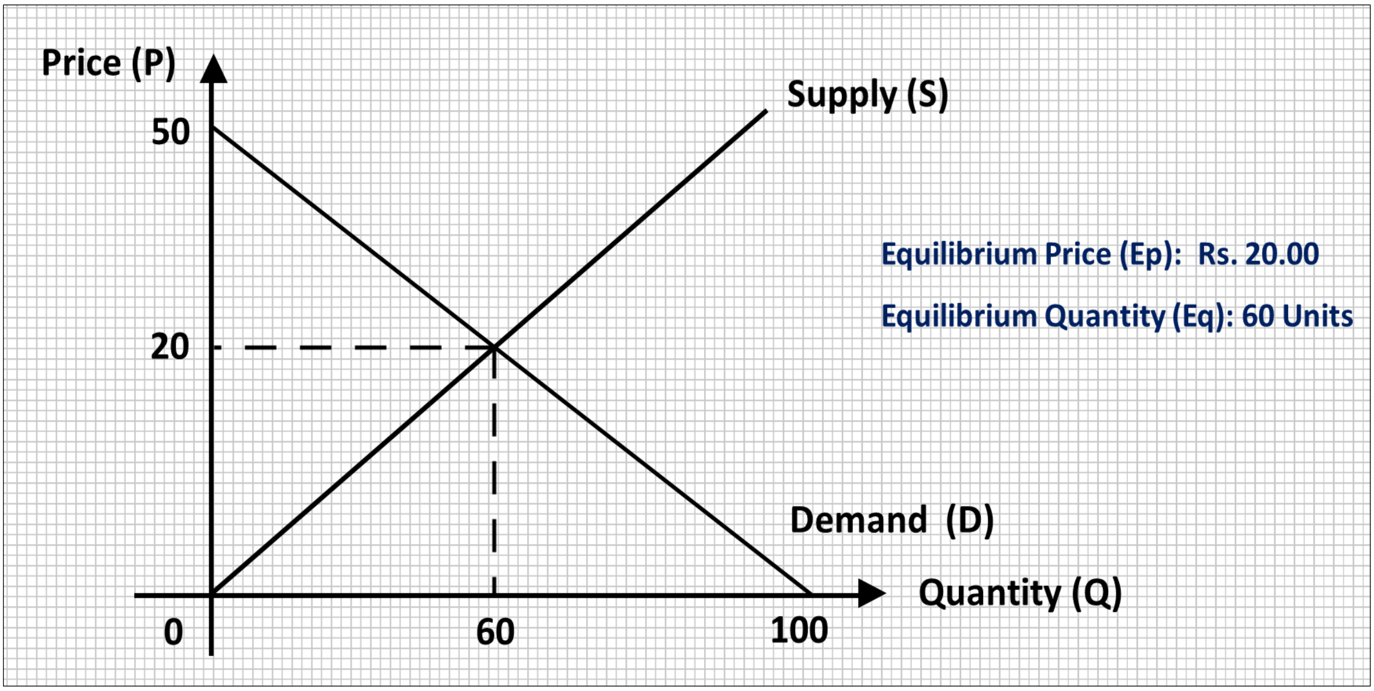
= 3 x 20

= 60 Units

Equilibrium Price (Ep): Rs. 20.00

Equilibrium Quantity (Eq): 60 Units

(II)



Question [05]

(A) **Distinguish** between a **price floor** and a **price ceiling** and give an example of each in the **Sri Lankan context**

[04 marks]

Price floors are **minimum prices** set by the government for certain commodities that it believes are being sold in an **unfair** market with **too low** of a price and thus their **producers** deserve some assistance (a better price).

[01 mark]

Examples: Setting a minimum wage
Setting guaranteed prices for agro crops

[01 mark]

A price ceiling is a **maximum price** set by the government for particular goods and services that they believe are being sold at **too high** of a price and thus **consumers** need some **help purchasing** them.

[01 mark]

Examples: Setting maximum prices for some essential consumer goods such as rice, milk powder, bread, passenger transport, LP gas
Maximum interest rate controls

[01 mark] [Total 04 marks]

(B) **The demand and supply curves for a good sold in competitive market are given by the following equations:**

$$Qd = 30 - 2P \qquad\qquad Qs = -2 + 2P$$

In the equations above, (Qd) and (Qs) are the quantities demanded and supplied respectively and (P) is the price in rupees.

(I) Determine the equilibrium price and quantity for this market

(II) Suppose the government imposes a floor price equal to Rs. 10 per unit without taking any price supportive action. What will be the excess demand or supply in the market resulting from the floor price?

[02 marks each]

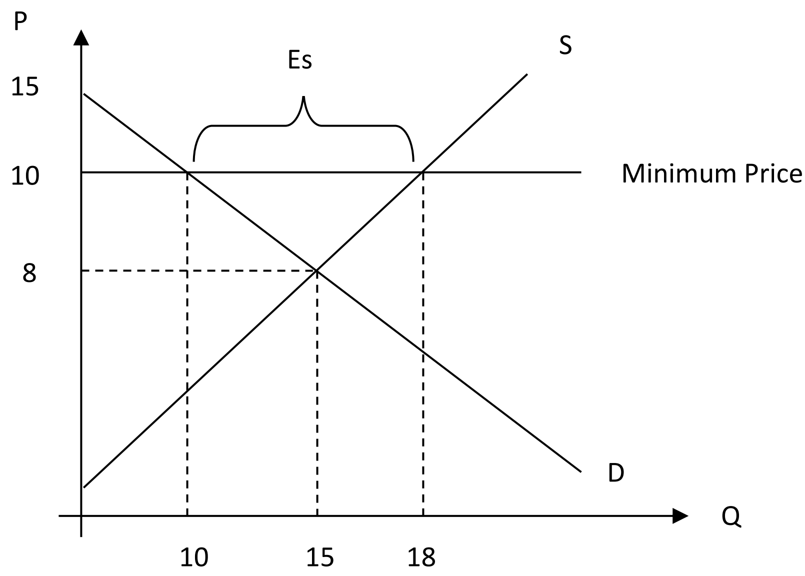
(I) Equilibrium price = Rs. 8.00
Equilibrium quantity = 14 units

Note: The equilibrium price and quantity can be estimated based on equations or a diagram. The method of estimation should be given clearly in order to receive full marks

[02 marks each]

(II) The excess demand and supply should be estimated based equations or the diagram; marks will not be allocated if only the values are presented.

When the minimum price ceiling is decided at Rs.10.00 the quantity demanded is 10 units and the quantity supplied is 18 units, accordingly there will be an excess supply 8 units.



(C) Distinguish between the **short run** and the **long run** in production

Short run is a stage or time period in production, where a business organization is unable to increase or change certain inputs (at least one input) used in production, when attempting increase output.

(01 mark)

Alternative Answer:
A time period in production where a given production firm's inputs consists of certain fixed inputs, used along with variable inputs is known as the short run.

(01 mark)

Long run is a stage or time period in production long enough to change or vary all inputs used in the production process.

(01 mark)

Alternative Answer:
A time period in production where all inputs used by a given production firm function as variable inputs is known as the long run

(01 mark) (Total 04 marks)