Issued On:		Past Paper Questions [PPQs]	**13** [80 - 92]
Deadline:		Model Questions [MQs]	**3** [23 – 25]
Marks : Time	**1 mark = 1 ½ Mnt**	Units - Essentials Covered	**Unit 5 - 6**

National Accounting Process [Unit 5]

[01] 2012 A/Ls (ECON – II): Q4

(II)   Explain why an economy's total output, in essence, is also its total income

(02 marks)

(IV)   Which of the following are included in this year's GDP ? Explain your answer in each case

    a)   Interest received on corporate bonds
    b)   Pension payment received by a retired public servant
    c)   The purchase of an insurance policy
    d)   The purchase of 100 shares of a finance company
    e)   Rent received on an apartment

(05 marks)

[02]   Model Question
The following information is pertaining to a hypothetical production process (all values in millions)

Product (Output)   100
Raw material   30
Utility expenses   10
Consumption of Fixed Capital [CFC]   20

Estimate:
    (A)   Intermediate Consumption [IC]
    (B)   Gross Value Added [GVA]
    (C)   Net Value Added [NVA]

[03] 2015 A/Ls (ECON – II): Q4

(I) What are the three approaches in measuring aggregate economic activity of a country? Why do these three approaches give the same value for aggregate economic activity?

(II) What are the main sources of national savings in Sri Lanka?

(III) In what ways are national income statistics are useful

(04 marks each)

(IV) Suppose you are given the following information about a hypothetical economy: (All figures are in Rs. million)

Item	Value	Item	Value
Government purchases	50	Government transfers to households	25
Gross private domestic investment	70	Interest payments from the government to household	15
Gross Domestic Product at Market Price	400	Factor income received from abroad	7
Current account balance of the Balance of Payment	-25	Factor payment made to abroad	12
Taxes	100	Net foreign current transfers	10

Calculate the following using the above information:

   (A) Net exports
   (B) Private consumption expenditure
   (C) Disposable Gross National income
   (D) Government savings   (02 marks each)

[04] Model Question
   Using your knowledge of the methods of evaluating product values, complete the following schedule

Year	GDP (Current Price)	Price Level (Index)	GDP (Fixed Prices)
2017	1000	?	1000
2018	1320	110	?

[05] **Model Question**

Using your knowledge of different 'prices' used in national accounting, complete the following formulas

(A) Producers' Price = Basic Price ±

(B) Purchasers' Price = Producers' Price ±

(C) Basic Price = Purchasers' Price ±

(D) Factor (Cost) Price = Basic Price ±

National Accounting Process [Unit 6]:

[01] 2017 A/Ls (ECON – II - II): Q5 (IV)

'The equilibrium level of national income, is not necessarily equal to the full employment level of national income' Explain this statement.

[04 marks]

[02] 2013 A/Ls (ECON – II - II): Q5 (II)

Distinguish between **'inflationary gap'** and **'recessionary gap'**

[04 marks]

[03] 2012 A/Ls (ECON – II - II): Q5 (I-II)

(I) Explain what is meant by an equilibrium level of national income. What are the conditions required for the equilibrium in national income level

[06 marks]

(II) Why is saving called a **'leakage'**   **[02 marks]**

2015 A/Ls (ECON – II - II): Q5 (II)

Explain what is meant by an equilibrium level of national income. What are the conditions required for the equilibrium level in national income in an open economy

[04 marks]

[04] 2011 A/Ls (ECON – II - II): Q5 (I-II)

(I) What are the components of aggregate expenditure in an open economy? Define each components

[06 marks]

(II) What is the relationship between the savings and the consumption function?

[02 marks]

[05] 2010 A/Ls (ECON – I - II): Q6 (I - II)

(I) explain graphically the determination of the equilibrium GDP though both the aggregate expenditure approach and the leakages-injections approach, for an economy comprising of government sector and foreign trade sector

[06 marks]

(II) Suppose the aggregate consumption function for a simple economy is as follows:

$$C = 200 + 2/3 \ Y$$

(a) What would the equation be for the aggregate savings function? **[03 marks]**

(b) At which level of income would savings be zero **[02 marks]**

[06] 2011 A/Ls (ECON – II): Q5 (III)

For a closed economy with no government, suppose the consumption function is given by C = 100 + 0.8Y, while investment is given by I = 50

(a) What is the equilibrium level of income of this economy?
(b) What is the level of savings in equilibrium?
(c) If, for some reason, income is at the level of 800, what the level of involuntary inventory accumulation will be
(d) If investment (I) rises to 100, what will the effect be on the equilibrium income

(02 marks each)

(e) Draw a diagram indicating the equilibrium in both (a) and (d)

(04 marks)

[07] 2008 A/Ls (ECON – II - II): Q6 (III)

Suppose the government is considering whether to reduce personal income taxes by Rs. 40 billion or to increase government purchases by Rs. 40 billion to combat a recession. Assume that price level is constant and the Marginal Propensity to Consume (MPC) is 0.8. What effect would each of these measures have on aggregate demand? Which measure is more expansionary? Why?

(05 marks)

[08] 2006 A/Ls (ECON – II - II): Q6

(a) Consider an economy with no government, imports, or exports and with fixed prices and interest rates. The aggregate consumption function of the economy is C = 150 + 0.60Yd and investment (I) = 50. (All figures are in Rs. billion)

(I) What is the equilibrium level of aggregate output of this economy

(04 marks)

(II) What is the value of the investment multiplier   **(02 marks)**

(b) Suppose a government sector is now added to the original economy described in part (a). The government spends 100 on goods and services and receives taxes of 100

(I) What is the equilibrium level of aggregate output now   **(04 marks)**

(II) Full employment output in this economy is 800. Suppose government spending is raised to attain this level of output, but taxes are not changed. What level of government spending will result in an equilibrium output of 800?

(05 marks)

[09] 2005 A/Ls (ECON – I - II): Q6

Some information pertaining to aggregate consumption and investment in a simple economy is given below:

- Autonomous (determined independent of current income) consumption is Rs. 50 million
- Every one rupee increase in income causes 75 cents increase in consumption
- Investment Rs. 100 million

(a) Using the above information, construct the consumption and savings functions for this economy
(b) Determine the equilibrium level of national income for this economy
(c) Draw consumption, savings and investment functions in a diagram and show the determination of equilibrium level of income

(05 marks each)

[10] 2013 A/Ls (ECON – II - II): Q5 (I) and (IV)

(I) Briefly explain the meaning of the **'Investment Multiplier'**

(IV) Suppose that for a particular closed economy, for some given time period, investment was equal to Rs. 100 million, government purchases were equal to Rs. 75 million, net taxes were fixed at 100, and consumption (C) given by the consumption function.

C = 25 + 0.8 Yd   Where (Yd) is Disposable Income

(a) What are the values of the government expenditure multiplier and the tax multiplier?

(b) Suppose that the full-employment level of income for this economy is Rs. 1,000 million. What would be the increase in government spending required to reach full-employment income level?
Alternatively, what reduction in tax collection would be sufficient to reach full-employment income level?

(04 marks each)

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