THEORY PROGRAM **FORTNIGHTLY REVIEW [FNR]**	FNR: **07**	**Issued on:**
	2024 A/L	**Due on:**

ATTEMPT. PRACTICE. LEARN. IMPROVE. ACHIEVE.

Part – [A]

(01) A good is considered scarce in a society when,

(1) More output of the good is possible.
(2) Everyone in that society cannot have all they want of the good.
(3) The government restricts production of the good.
(4) Only the richest people in the economy can buy all they want of the good.
(5) The good's price is fixed irrespective of the supply.

(02) If the price elasticity of supply is 2, this means that if _____________.

(1) The price rises by one dollar, the quantity supplied will rise by two dollars.
(2) The price falls by one dollar, quantity supplied will fall by two dollars
(3) The price rises by one percent, the quantity supplied will rise by two percent.
(4) The price rises by one percent, the quantity supplied will fall by two percent.
(5) The price rises by two percent, the quantity supplied will rise by one percent.

(03) Suppose it is announced that industry analysts are predicting that decreased oil supplies from Iraq will cause gasoline prices to rise, beginning of next month. In the current week, the announcement would:

(1) Shift the supply of gasoline to the right.
(2) Shift the demand for gasoline to the right.
(3) Shift the demand for gasoline to the left.
(4) Have no effect on the demand of gasoline.
(5) Have no effect on the demand or supply of gasoline.

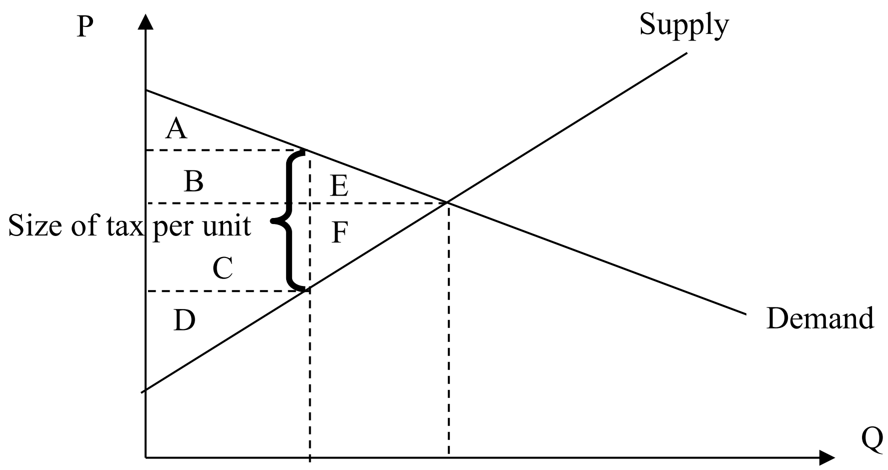
(04) If the demand for a good is price inelastic, which of the following statements is correct?

(1) If the price of the good rises, the total revenue earned by the producer increases.
(2) If the price of the good rises, the total revenue earned by the producer falls.
(3) If the price of the good falls, the total revenue earned by the producer increases.
(4) If the price of the good falls, the total revenue earned by the producer is unaffected.
(5) If the price of the good rises, the total revenue earned by the producer is unaffected.

(05) Following except one would increase the amount of a particular model of a Ford automobile that buyers would like to buy. Which is the exception?

(1) An increase in buyers' incomes
(2) Increased prices of other Ford models
(3) An expected future increase in the price
(4) An increase in the country's driving age population
(5) A decrease in the price of steel

Refer the following graph to answer questions (6) to **(15)** **[Unit Tax → 360°]**



(06) If there is no tax placed on the product in this market, consumer surplus area is?

(1) C+D+F
(2) A
(3) A+B+E
(4) D+C+B
(5) A+B+C

(07) If there is no tax placed on the product in this market, producer surplus area is?

(1) A+B+E
(2) D
(3) C+F
(4) A+B+C+D
(5) C+D+F

(08) If a tax is placed on the product in this marker, consumer surplus area is?

(1) D
(2) A
(3) A+B+E
(4) A+B+C+D
(5) A+B

(09) If a tax is placed on the product in this marker, producer surplus area is?

(1) A+B+E
(2) A+B+C+D
(3) A
(4) D
(5) C+D+F

(10) If a tax is placed on this product in this market, tax revenue paid by the buyers is the area;

(1) B+C+E+F
(2) B
(3) B+C
(4) A
(5) C

(11) If a tax is placed on this product in this market, tax revenue paid by the sellers is the area;

(1) C+F
(2) A
(3) B
(4) B+C+E+F
(5) C

(12) If there is no tax placed on the product in this market, total surplus area is?

(1) B+C+E+F
(2) E+F
(3) A+B+C+D
(4) A+B+C+D+E+F
(5) A+D+E+F

(13) If a tax is placed on the product in this market, total surplus area is?

(1) A+B+C+D+E+F
(2) A+D+B+C
(3) A+D
(4) B+C+E+F
(5) E+F

(14) If a tax is placed on the product in this market, the deadweight loss is?

(1) B+C+E+F
(2) E+F
(3) B+C
(4) A+B+C+D
(5) A+D

(15) Which of the following is true with regard to the burden of the tax as per the graph.

(1) The buyers pay a larger portion of the tax because demand is more inelastic than supply.
(2) The sellers pay a larger portion of the tax because supply is more elastic than demand.
(3) The buyers pay a larger portion of the tax because demand is more elastic than supply.
(4) The sellers pay a larger portion of the tax because supply is more inelastic than demand.
(5) None of the above statements are true bout the graph.

(16) A good for which the Engle curve and the demand curve are downwards sloping is a

(1) Normal good
(2) Giffen good
(3) Substitute good.
(4) Complementary good
(5) Inferior good

(17) With a perfectly elastic demand and a normal supply (upward-slopping),

(1) Consumers will bear the entire tax burden.
(2) Consumers will not bear any tax burden.
(3) Consumers and producer will split the tax burden.
(4) Consumers and producer will split the tax burden equally.
(5) Producers will not bear any tax burden.

(18) Another thing you give up, if not you would have definitely chosen, when obtaining an item is called your,

(1) Opportunity cost.
(2) Explicit cost.
(3) True cost.
(4) Direct cost.
(5) Marginal cost.

(19) A "free good" in economic terms can best be described as one which

(1) Is supplied at a zero price to the consumer.
(2) Is provided free by the government
(3) Does not use scarce resources in its production.
(4) Is extracted directly from the land or sea.
(5) Can be produced at constant opportunity cost.

(20) Which would a company do to improve its human capital?

(1) Build a company cafeteria.
(2) Provide training.
(3) Buy comfortable chairs for employees.
(4) Hire more part-time workers.
(5) Lease cars for employees.

(21) Which of the following is a feature of human wants?

(1) Relatively limited.
(2) Basic in nature.
(3) Common.
(4) Diverse.
(5) Cannot be artificially created

(22) Identify the incorrect statement.

(1) Goods that are at zero price and unlimited in supply are free goods.
(2) An opportunity cost is incurred on producing and /or consuming economic goods.
(3) Classification of consumer and capital goods are based on usage.
(4) Pure public goods are a type of free goods, as both do not involve an opportunity cost.
(5) Economic goods are the results of human resource allocation decision.

(23) The opportunity cost of studying at a private university is likely to include all the following except one. Which of them is not included?

(1) The cost of required textbooks
(2) Tuition fees
(3) The income foregone to attend classes during the university sessions
(4) The money spent on haircuts during the university years
(5) The cost of paper and pencils needed to take notes

(24) Entrepreneurs do all of the following EXCEPT

(1) Organize labour, land and capital
(2) Come up with new ideas about what and how to produce
(3) Bear risk from business decisions
(4) Own all the other factors of production
(5) Make strategic decisions about production and business

(25) Kamal is considering attending a concert with a ticket price of Rs.3,000. He estimates that the cost of driving to the concert 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

Part – [B]

Question [01]

Match the relevant concept with the appropriate statement [01 marks each]

Long run	Supply curve	Price Elasticity	Producer surplus
Change in demand	Short run	Price Ceilings	Equilibrium price
Excess demand	Excess supply	Price Floors	Consumer surplus

	Statements [Concept Description]	**Concept**
1	The price that equates quantity demanded to quantity supplied.	
2	A stage in production in which all inputs can be changed with output	
3	A change in the quantities demanded at each given price	
4	Quantity demanded greater than quantity supplied at a price.	
5	A curve that relates price and quantity supplied.	
6	A stage in production in which some or one inputs cannot be changed with output	
7	Difference between total revenue and the total variable cost of all the firms in the market	
8	The aggregate value of the utility that a consumer enjoys by paying less than he or she is willing and able to pay for a good.	
9	Quantity supplied greater than quantity demanded at a price.	
10	The answer obtained by multiplying the price coefficient of demand or supply by the price quantity ratio	

[Objective: Spot Recap of Key Concepts**]**

Question [02]

(A) **Distinguish** between the following pairs of concepts

Hint:
simply provide a technical and standard definition for each concept (with examples as appropriate)

(1) A Good and a Bad
(2) An Economic goods and a Non-economic (or Free) good
(3) A Capital good and a Consumer good

[03 marks each]

Question [03]

(A) **Distinguish** by **'Defining'** the following concepts connected to Supply Theory:

(1) Supply (i.e., Effective Demand) and Quantity supplied
(2) Institutional Supply and Market Supply

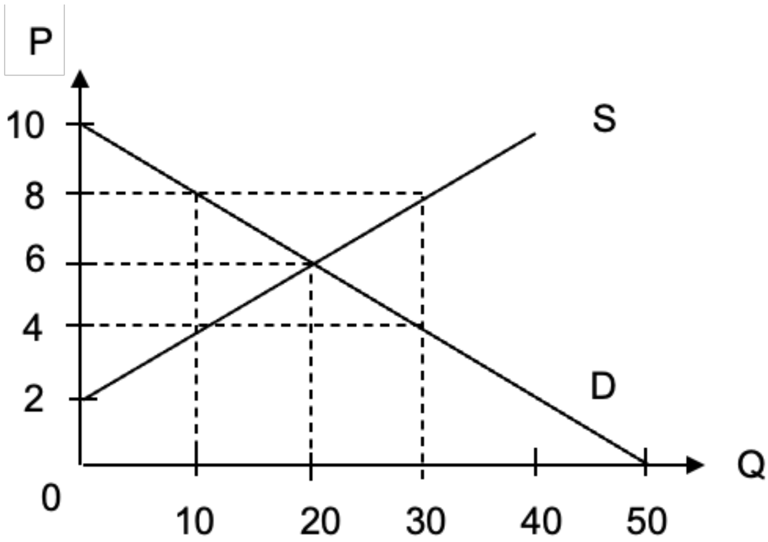
[04 marks each]

(B) **State the** specific and generic factors determining the quantity of Fresh Milk supplied by dairy farmers in Sri Lanka

[05 marks]

Question [04]

(A) Assume the diagram given bellow is for an essential commodity and the government implements a Maximum Legal Price (MLP) of Rs. 4.00



Estimate the following 'after' the government MLP:

1) Total Consumer Surplus
2) Total Producer Surplus
3) Deadweight Loss
4) Maximum total Consumer outlay at the Black Market
5) Net Gain or Loss to the Consumers
6) Government expenditure to make the MLP meaningful.

[02 marks each]

(B) **Briefly outline** the link between a market's elasticity and degree of allocative inefficiency (Deadweight Loss – DWL) resulting from a government Price Ceiling

[02 marks]

(C) **Sate** the main forms of 'Non-price Rationing Methods' **[04 marks]**

END OF FNR [7] PAPER