



Institute of Certified Management Accountants of Sri Lanka

Incorporated by Parliament Act No.23 of 2009

PILOT PAPER

CAT Certified
Accounting
Technologist

CAT 3: Economics and Management (EM)

INFORMATION:

1. Time allowed:
Reading– 15 minutes.
Writing - Three (3) hours
2. The total mark allowed for this paper is 100.
3. This paper has 09 pages.

INSTRUCTIONS:

4. This paper consists of three sections. Each Section with two parts namely Economics and Management.
Section I: 24 Multiple Choice Questions (MCQs)
Section II: Question no. 01- 02 (02 Compulsory Questions from each part)
Section III: Question no. 03 – 06 (Answer any one question from each part)
5. Answer only four (04) questions including Sections 1 and II
6. The answers should be in the English language.
7. Only non-programmable calculators are permitted to use.

**The answer key is given from page 10-14*

Section I

Exam Structure

- 24 Multiple Choice Questions (MCQ)
 - Economics -12 MCQs
 - Management - 12 MCQs
- Each 02 marks and 48 marks in total.

Economics

1) The study of the economic behavior and decision-making of individuals named as:

- a) Macroeconomic
- b) Microeconomic
- c) Business economics
- d) Managerial economics

2) In which economics system does the decisions relating to the three basic economic questions are made partly by the free market forces of demand and supply and partly by the government:

- a) Market economy
- b) Planned economy
- c) Mixed economy
- d) Free economy

3) The demand curve will shift to the right-hand side as:

- a) Price of the product decreases.
- b) The income of the consumers decreases.
- c) Prices of complementary goods decrease.
- d) Taste and preference of the consumers decreases.

4) Supply will decrease due to:

- a) Decrease in raw materials cost.
- b) Unfavorable weather conditions.
- c) Upgrade in available manufacturing technology.
- d) Decrease in price of the particular product.

5) At the market equilibrium condition:

- a) Demand > Supply
- b) Supply > Demand
- c) Demand = Supply
- d) Demand ≠ Supply

Management

13) According to Peter F. Drucker Efficiency means:

- a) Doing the right thing
- b) Doing the next thing
- c) Doing the things right
- d) Doing the perfect thing

14) Which element does not belong to the internal environment of an organization:

- a) Employees
- b) Owners
- c) Suppliers
- d) Organizational culture

15) According to Robert L. Katz which management skill is more important for top management:

- a) Decision-making skills
- b) Conceptual skills
- c) Human skills
- d) Technical skills

16) Strategic objectives are developed based on SMART model. Which of the following elements is not based on the above model:

- a) Specific
- b) Measurable
- c) Relevant
- d) Active

17) Chain of Command is defined as:

- a) unbroken line of authority which linked each employee with the top management.
- b) an employee receives orders from one supervisor.
- c) the number of employees reporting directly to one person.
- d) grouping individuals into units and units into departments to achieve organizational goals.

18) What is the source of power, that manager can use because of his/her special knowledge:

- a) Positional power
- b) Expert power
- c) Referent power
- d) Coercive power

19) Contingency leadership style means:

- a) Leadership varies based on different situations.
- b) Leadership prioritizes people orientation over task orientation.
- c) Leadership prioritizing task orientation over people orientation.
- d) Leadership is determined by the individual's inherent traits.

20) Which one of the following is a hygiene factor identified by Fredrick Hertzberg:

- a) Achievement b) Salary c) Recognition d) Responsibility

21) In operational controls, deviations are identified and prevented before they occur is named as:

- a) Concurrent controls b) Feedback controls
c) Feedforward controls d) Ongoing controls

22) Which of the following is NOT a principle of Corporate Governance:

- a) Transparency b) Accountability
c) Ethics d) Openness

23) Which is NOT an element of sustainable development:

- a) Economy b) Environment c) Society d) Organizations

24) What do you mean by Forensic Audit:

- a) examination of the truth and fairness of the financial statements of an entity.
b) assurance over the effectiveness of internal controls, risk management, and governance.
c) investigation of organizations involvement in illegal activities.
d) examinations of observing the compliance of particular laws and regulations

[24 MCQs x 2 Marks each -Total 48 Marks]

Section II – (Compulsory Question)

Exam Structure

- Two Scenario-Based Objective Test Questions.
 - Economics - 01 Question
 - Management - 01 Question
- Each 16 marks and 32 marks in total
- Answer both questions

Economics

Question 01

In Sri Lanka, the agricultural sector is highly susceptible to external environmental factors. In 2022, the government's decision to ban the import of chemical fertilizers led to a decrease in agricultural output. Additionally, extreme weather conditions, including intense rain in the last few months of the year, adversely affected harvests. The ongoing demands from agricultural workers for higher minimum wages have further contributed to the decline in agricultural production.

YOU ARE REQUIRED TO:

- 1.1. Illustrate using PPC, the permanent damage happens to agricultural lands due to adverse external events.

(02 Marks)
- 1.2. Explain three reasons for changes in supply based on the above scenario.

(06 Marks)
- 1.3. Based on the characteristics of agricultural products, what is the most suitable market structure for the agricultural sector and justify

(03 Marks)
- 1.4. “Firms in the agriculture sector are price makers” Do you agree? Explain

(05 Marks)

[Total 16 Marks]

Management

Question 02

Mr. Silva is newly appointed as the Group General Manager of one of the largest corporations in Sri Lanka, ABC PLC. The management of ABC LTD is very well experienced and senior managers of Finance, Marketing, IT, Human Resources, and Production directly report to him. At the lowest level of the organization consists of executives who are fresh graduates of above specialization areas.

YOU ARE REQUIRED TO:

2.1. Which managerial skill is most required by Mr. Silva to become a successful manager at this organization. Explain.

(03 Marks)

2.2. Illustrate the organization structure of ABC PLC.

(03 Marks)

2.3. Explain how Mr. Sliva should use people-oriented and task-oriented leadership styles with different managerial levels of the organization.

(06 Marks)

2.4. As Mr. Sliva designs to implement a new motivational strategy to improve employee satisfaction at the organization. Help Mr. Sliva by explaining the application of Maslow's need hierarchy at this organization.

(04 Marks)

[Total 16 Marks]

Section III – (Optional Question)

Exam Structure

- Four Scenario-Based Objective Test Questions.
 - Economics - 02 Questions
 - Management - 02 Questions
- Answer one question from each part
- 10 marks each and 20 marks in total

Economics

Question 03

3.1 Briefly explain the following concepts of economics

- i) Scarcity
- ii) Choice
- iii) Opportunity Cost

(03 marks)

3.2 Illustrate the following economic scenarios using Production Possibility Curve (PPC)

- a) Discovery of new oil reserve in Sri Lanka
- b) Loss of commercial buildings due to floods in Colombo
- c) Inefficiencies of government employees.

(03 marks)

3.3 Describe how market economies resolve the basic economic questions.

(04 Marks)

[Total 10 Marks]

Question 04

4.1. List down four factors influencing the demand of TOYOTA vehicles.

(02 Marks)

4.2. “Demand curve will shift to the right hand if price of the product reduces” Do you agree with this statement: Why:

(04 Marks)

4.3. The demand and supply functions for Paddy harvest are given, respectively, by the equations: $Q_d = 20 - 0.02p$ and $Q_s = -12 + 0.06p$. Find the equilibrium price and quantity.

(04 Marks)

[Total 10 Marks]

Management

Question 05

5.1. Differentiate managers and leaders

(02 Marks)

5.2. “Organizations are vulnerable to changes in external environment” briefly explain the impact of opportunities and threats for an organization.

(04 Marks)

5.3. Requirement of managerial skills varies with the level of management in an organization. Do you agree: Explain

(04 Marks)

[Total 10 Marks]

Question 06

6.1. Define “Vision” of an organization and explain the importance of Vision.

(03 Marks)

6.2. “Leaders use various sources of power to influence their followers”. Explain some of the sources of power.

(03 Marks)

6.3. “Planning and Controlling are interconnected in any organization” Do you agree. Explain.

(04 Marks)

[Total 10 Marks]

ANSWER KEY

Section - I

Q. No	Answer	Q. No	Answer
01	B	13	C
02	C	14	C
03	C	15	B
04	B	16	D
05	C	17	A
06	A	18	B
07	A	19	A
08	D	20	B
09	C	21	C
10	C	22	D
11	B	23	D
12	D	24	C

Section - II

Question 01

1.1 Illustrate using PPC, the permanent damage happens to agricultural lands due to adverse external events.

Students are required to illustrate a shift in PPC to the left-hand side.

1.2 Explain three reasons for changes in supply based on the above scenario.

Students are required to identify the factors impacting the supply and their impact on supply.

- I. A ban to import chemical fertilizers to Sri Lanka – Supply will decline due to the
- II. Extreme weather conditions – Supply will decline due to the bad weather conditions.
- III. Increase in minimum wages of workers in the agricultural industry – Supply will decline due to an increase in the cost of production.

1.3 Based on the characteristics of agricultural products, what is the most suitable market structure for the agricultural sector and justify

A perfect competition market structure is the most suitable market structure. It is because of identical products offered by the firms in the market structure, the large number of firms in the market and the pricing-taking feature of the firms in the market structure.

1.4 “Firms in the agriculture sector are price makers” Do you agree. Explain

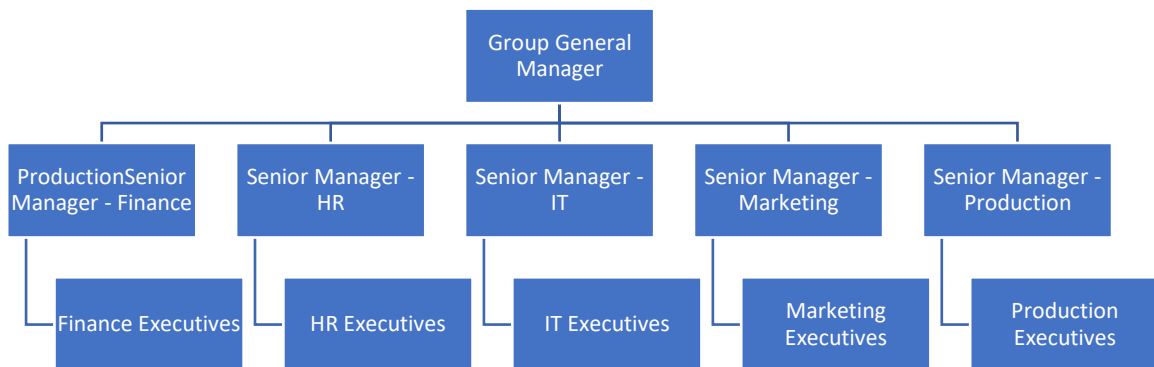
No, agricultural sector firms belong to the perfect competition market structure as they exhibit lower market power due large number of firms and identical products they offer to the market limiting the ability to set their own price. Mainly due to the identical products offered by firms forces the market to set the price for the firms. Therefore, firms in perfect competition market structure (agriculture) are price takers rather than price makers.

Question 02

2.1 Which managerial skill is most required by Mr. Silva to become a successful manager at this organization. Explain.

As Mr. Silva belongs to the top management of the organization, he needs more conceptual skills which will enable him to foresee the future of the organization.

2.2 Illustrate the organization structure of ABC PLC.



2.3 Explain how Mr. Sliva should use people-oriented and task-oriented leadership styles with different managerial levels of the organization.

As organization consist of different levels of employees such as middle level and lower level. Also, some employees are well experienced and some are fresh graduates. Therefore, Mr. Silva has to apply different leadership styles to lead the organization. Mr. Sliva can apply a more people-oriented leadership style with experienced middle-level managers because that group needs to be less guided and supervised. Mr. Silva can more task oriented with lower level employees as they are less experienced and needs close supervision.

2.4 As Mr. Sliva designs to implement a new motivational strategy to improve employee satisfaction at the organization. Help Mr. Sliva by explaining the application of Maslow's need hierarchy at this organization.

Maslow's need hierarchy observes the different levels of satisfaction of employees in an organization. Top/Middle-level managers are more motivated as they can satisfy social needs, self-esteem needs or self-actualization needs whereas lower-level managers are motivated by physical and safety needs. It means Top/Middle-level managers need more challenges and opportunity to even more recognition at the workplace. Lower level employees are satisfied with good basic salary, other monetary benefits/allowances of the job and job security.

Section - III

Question 03

3.1 Briefly explain the following concepts of economics

- Scarcity – Resources available are limited compared to the unlimited wants of human beings.
- Choice – As resources are scarce and have alternative uses, economy units have to select the best option out of all alternatives.
- Opportunity Cost – the cost of next best alternative foregone.

3.2 Illustrate the following economic scenarios using Production Possibility Curve (PPC)

- a) Discovery of new oil reserve in Sri Lanka – shift in the PPC to right-hand side.
- b) Loss of commercial buildings due to floods in Colombo - shift in the PPC to left-hand side.
- c) Inefficiencies of government employees. – a point inside the PPC

3.3 Describe how market economies resolve the basic economic questions.

In the market economy as majority of the resources are owned by the private sector and their motivation is profits. Therefore, they will produce goods and services with the highest profitability, use the lowest cost approach of labour or capital incentive approaches and produce goods and services for people with buying ability.

Question 04

4.1 List down four factors influencing the demand of TOYOTA vehicles.

- a) Price of TOYOTA vehicles
- b) Prices of other vehicle brands
- c) Income of the consumers
- d) Future price expectations of vehicle prices
- e) Technology of TOYOTA vehicles

4.2 “Demand curve will shift to the right hand if price of the product reduces” Do you agree with this statement? Why?

No. Demand curve will shift only if factors other than the price of that product changes Such as prices of other goods, income of the consumers, taste, technology, quality, etc. when the price of the product changes, there will be movement along the demand curve.

4.3 The demand and supply functions for Paddy harvest are given, respectively, by the equations: $Q_d = 20 - 0.02p$ and $Q_s = - 12 + 0.06p$. Find the equilibrium price and quantity.

At equilibrium point: $Q_s = Q_d$

$$: - 12 + 0.06p = 20 - 0.02p$$

$$: 0.08p = 32$$

$$: p = \text{Rs. } 400$$

$$Q_d = 20 - 0.02 \times 400$$

$$= 12 \text{ units}$$

Question 05

5.1 Differentiate managers and leaders

Managers	Leaders
Have subordinates	Have followers
Seek respect	Receive respect
Task-oriented	People-oriented
Focuses on the present	Looks to the future
Control the subordinates	Empower the followers

5.2 “Organizations are vulnerable to changes in external environment” briefly explains the impact of opportunities and threats for an organization.

Students are required to discuss PESTEL factors. Explain opportunities and threats that can arise due to changes of PESTEL factors.

5.3 Requirement of managerial skills varies with the level of management in an organization. Do you agree? Explain

Yes. there are mainly three managerial skills namely conceptual skills, interpersonal skills, and technical skills. At top management, conceptual skills are more important than other skills. at lower management, technical skills are more important than other skills. At middle-level management balance of all three skills is important. Importantly interpersonal skills is equally important across any managerial level.

Question 06

6.1 Define “Vision” of an organization and explain the importance of Vision.

The vision of an organization is like a glittering star in the sky, ever to pursue but never to be achieved. Vision will provide the direction to the organization where it needs to be

going. Based on the vision, the organization can develop their mission, goals and objectives.

6.2 “Leaders use various sources of power to influence their followers”. Explain some of the sources of power.

Leaders have various sources of power which they can use for influence the behavior of followers. Following are some of the sources of powers

legitimate power – the ability to influence gain from position in the hierarchy

reward power – the ability to influence the rewards or incentives

coercive power – the ability to influence through threats

referent power – the ability to influence through personal characteristics

expert power – having expertise in the area.

6.3 “Planning and Controlling are interconnected in any organization” Do you agree. Explain.

Yes, Planning function is where the organization sets their vision, mission, goals, objectives and strategies after careful evaluation of its environment. The controlling function is where the organization evaluate and take corrective actions by comparing the set standards with the actual outcome of the organization. So, the planning function and controlling function are linked together.
