

General Certificate of Education (Advance Level)

Economics

Grade 13

Teachers' Instructional Manual

(Implemented from 2010)



**Department Of Business Studies
Faculty of Science Technology
National Institute of Education
Maharagama.**

Economics

Grade13 - Teacher Instructional Manual

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Learning Outcomes and Model Activities

Competency 06 : Analyses the change of price levels that affects the macroeconomic process.

Competency Level 6.1 : Analyses measures of general price Level.

Number of Periods : 05

Learning outcomes :

- Defines General price level
- Defines Price Index
- Prepares Price Index based on given data.

Learning -teaching Process :

Engagement

- Provide instructions to compute the average of the marks obtained by the students in the last term test.
- Inquire from students about how they obtained the average of marks.
- Conduct a discussion highlighting the factors mentioned below ;
 - The average value of marks can be obtained by dividing the total of marks for each subject by the number of subjects.
 - The average value of goods and services can also be obtained by the same method.
 - General Price level could be obtained through the average prices of all the goods and services in a country.
 - Group the students and get them involved in the activity on the proposed instructions for learning.

Proposed instructions for learning :

- Pay attention to the price list of your group from the lists given below

(1)

Category of goods (per K.g. in Rupees)	Year				
	2005	2006	2007	2008	2009
Rice	35	40	42	45	48
Suger	40	42	45	48	50
Wheat	25	30	32	35	38
Total					

(2)

Category of goods (per K.g. in rupees)	Year				
	2005	2006	2007	2008	2009
Carrot	40	43	45	47	49
Beans	35	37	39	40	42
Leeks	25	27	28	30	32
Total					

(3)

Category of goods (per K.g. in rupees)	Year				
	2005	2006	2007	2008	2009
Pineapples	30	32	35	37	40
Oranges	20	23	25	28	30
Pomegranates	35	37	40	42	45
Total					

- Compute the total price of the three set of goods received by you every year.
- Calculate the relative change of price level of the three sets of goods for the years 2006, 2007, 2008 and 2009 compared to the year 2005.
- Indicate the increase or decrease as a percentage of the total of the three set of goods in 2005.
- Compare the percentage changes of prices of each respective year with the previous year.
- Through a group discussion determine conclusions that you can arrive at.
- Be prepared to present the information you collected to the class in a creative manner.

Guidelines to explain subject matter

- General Price level is an index that reflects all the prices of goods and services.
- Here, it is difficult to obtain a meaningful value on the general price level by simply adding the value of each good expressed in terms of rupees and cents.
- Therefore should obtain stated value of indices instead of value in rupees.
- Value of any variable that varies with time can be expressed through indices.
- Price indices are used to indicate the percentage changes of values of a time series compared to the base year.
- When the base year value is considered as 100 the amount of percentage changes of time series values for other years can be calculated.
- Price comparisons can be presented using the table given below.

Goods	Price Comparison		
	First year	Second year	Third year
I Rice	100	160	240
II Wheat	100	150	200
III Sugar	100	120	160
Total	300	430	600
General Price (I+II+III)/3	100	143.3	200

- The general Price level has increased in the second year by 43% and third year by 100% compared to the base year.

Competency Level 6.2: Investigates price indices that measure change of general price level in Sri Lanka.

Number of periods : 08

Learning outcomes :

- Names and explains the prices used to measure general the price level in Sri Lanka.
- Explains the important of indices separately
- Discusses the shortcomings in the indices used to measure the general price level in Sri Lanka.

Guidelines to explain subject matter :

- There are many indices available to measure the general price level in Sri Lanka.
- Among them, some are consumer price indices and some are prices used to measure total price level.
- The New Colombo consumers' price index, Wholesale price index and GDP Deflator are used to measure the general price level in Sri Lanka at present.
- New Colombo consumers' price index is used as the price index in Sri Lanka effective from 2002.
- Though the Colombo consumers' price index had been in Sri Lanka since 1952 to measure living expenses, a new CCPI has been introduced due to the shortcomings of CCPI.
- The Department of Census and Statistics (DCS) revised the base year of the Colombo Consumers' Price index (CCPI) from 1952 to 2002 in November 2007.
- This price index is calculated on a monthly basis by the Department of Census and Population and published in the Government gazette.
- More than 1300 Households are included in the sample of CCPI.
- The weights of the CCPI were revised by the DCS based on the Household Income and Expenditure Survey (HIES) conducted in 2006/07.
- Pettah, Maradana, Wellawatta, Dematagoda, Grandpass, Borella, Kirulapana, Dehiwala, Kotte, Nugegoda, Kollonnawa and Rathmalana are data collecting centers for the new indices.
- This indices are prepared by calculating the nominal prices value from the above centers.
- Consumer price indices can be prepared using the following formula.

- One of the weaknesses of this index is that it does not represent the pattern of the aggregate expenditure in Sri Lanka
- Consumers' price indices can be prepared using the following formula.

$$\text{Consumers' price indices} = \frac{\sum P_1 Q_0 \times 100}{\sum P_0 Q_0}$$

P_1 = Prices of current year

P_0 = Prices of base year

Q_0 = Quantity of the base year

Σ = Total

- The Wholesale price index was introduced in 1977 by the Central Bank.
- This is used to measure the price changes in the primary market.
- This index has been prepared on 13 weighted items considering the base year as 1974.
- Prices in the retail market can be predicated based on the price level changes in the primary market.
- Exclusion of services is the main weakness of this price index.
- Deflator Price index is prepared based on the estimations of gross domestic product calculated on constant and current prices.
- The ratio between the gross domestic product calculated on the constant price and the current price in the same year reflects the change of price.
- This ratio is called the deflator.
- When this deflator is multiplied by 100, it can be used as an index.
- The following formula is used to calculate this.

$$\text{Real income} = \frac{\text{Norminal income}}{\text{Price index}}$$

• Inclusion of all the goods and services used for the estimation of the gross domestic product is the main feature of this price index.

Competency Level 6.3 : Studies the types of inflation by analyzing the concepts of inflation.

Number of periods : 06

Learning outcomes :

- Defines inflation
- Presents the measurements of inflation.
- Describes the types of inflation.
- Discusses various concepts related to inflation.

Guidelines to explain subject matter:

- Inflation as the continuous increase of the general price level in the economy.
- The level of inflation in the economy determines the average prices of all goods and services and not on the changes of prices of individual goods.
- Actual increase in the general price level is headline inflation.
- Core inflation is the inflation ratio which is applied to mention the temporary changes of price.
- Core inflation is to be considered when making decisions on monetary policies such as demand management policies.
- When measuring core inflation in Sri Lanka on international standards food and energy items are not included.
- Creeping inflation, Galloping inflation, hyper inflation, Spiral inflation, and Suppressed inflation, can be identified based on inflation.
- Decline in the rate of inflation is disinflation.
- A continuous decline in the general price level is regarded as a deflation.

Competency level 6.4: Analyses causes and effects of inflation using different approaches to inflation.

Number of periods : 06

Learning outcomes :

- Describes causes of inflation based on various approaches.
- Analyses the effects of inflation.
- Describes the ways of controlling inflation.

Guidelines to explain subject matter:

- Inflation can be analyzed using the following approaches.
 - Demands pull inflation.
 - Costs push inflation.
 - Structural inflation.
- Demand pull inflation occurs due to too much money chasing few goods.
- Financial expansion, Increase in government debts and increase in government expenditure cause increase in demand.
- Theory of demand inflation has two approaches called the quantity theory of money analysis and Keynesian analysis.
- Cost push inflation occurs due to the increase of the prices of goods and services followed by the increase of cost of production with higher prices of inputs.
- Price level increases with the increase of cost which is determined on the clashes between groups to acquire the proportions of national income.
- For example, rise in wages following trade union action can be presented.
- Graphical presentations of demand pull and cost push inflation are possible.
- Structural inflation occurs due to rigidity, limitations and inelasticities in the economic structure.
- Inflation brings about various economic effects.
- Decline in the real value of money has adverse effects on fixed income earners, depositors and creditors.
- Variable income earners and debtors are benefited by inflation.
- Real income can be calculated using the following formula.

$$\text{Real income} = \frac{\text{Nominal income}}{\text{Price index}}$$

- Economic cost of inflation is the decline in efficiency of economic activities.
- Monetary policies and monetary policy management can be used to control inflation.

Competency level: 7: Analyses the contribution of the monetary and banking system to the economic process.

Competency level 7.1: Investigates money, types of money and functions of money.

Number of periods : 05

Learning outcomes :

- Defines money and explains characteristics of good money.
- Categorizes money with examples.
- Explains functions of money with examples.
- Identifies the value of money and explains how the internal and external value of money is determined.

Guidelines to explain subject matter:

- There were difficulties in operating a Barter system.
- There should be a double coincidence of wants when exchanging goods and services.
- In addition to this there were further difficulties in the barter system.
- Most of these problems were solved with the use of money.
- Anything that is generally accepted as a medium of exchange can be considered as money.
- Good money has the following characteristics.
 - Acceptability
 - Durability
 - Uniformity
 - Divisibility
 - Portability
 - Stability of value
- Discourages forgery
- Money which is legally accepted for transactions within the country is **Currency**.
- Current accounts with commercial banks are Bank money.
- Currencies and cheques are introduced as Modern money.
- Assets that can be converted to a medium^o of exchange easily are Near money.

- Money Substitutes act as a temporary medium of exchange but they do not comply with the function of money as a store of value. for example, Credit cards.
- Electronic money is a method of transaction through software storing the value of physical money electronically.
- Money has the following functions,
 - As a medium of exchange.
 - As a store of value.
 - As a unit of account.
 - As a medium of deferred payment.
- Functioning as an intermediation in a transaction is called medium of exchange.
- Storing money for future investment is called store of value.
- Ability to express the value of a good or service in a common unit is called a unit of account.
- Ability to settle past debts at a future date more efficiently is called a medium of deferred payment.
- The value of money is the quantity of goods and services which can be purchased at a given time period.
- Value of money is divided into two parts called internal value and external value.
- The Internal value of money is the quantity of goods and services that can be purchased by a unit of money of that country.
- The External value of money is the quantity of goods and services that can be purchased by a one unit of money of that country from another country.
- The Internal value of money is determined on the domestic price level.
- The External value of money is determined on the exchange rate.
- There is a positive relationship between the internal value and external value of money.

Competency level 7.2: Explains the factors related to the demand for money.

Number of periods : 05

Learning outcomes :

- Defines demand for money.
- Explains determinants of demand for money.
- Explains the relationship between demand for money and the determinants of demand for money using graphs.

Learning teaching process:

Engagement

- Inquire from the students the various reasons for the need for money.
- Conduct a discussion with students highlighting the following factors.
 - People keep money to buy food and beverages, medicine for emergencies and transportation.
 - The preference of people to keep money for these reasons is the demand for money.
 - Different factors influence the demand for money.

Proposed instructions for learning :

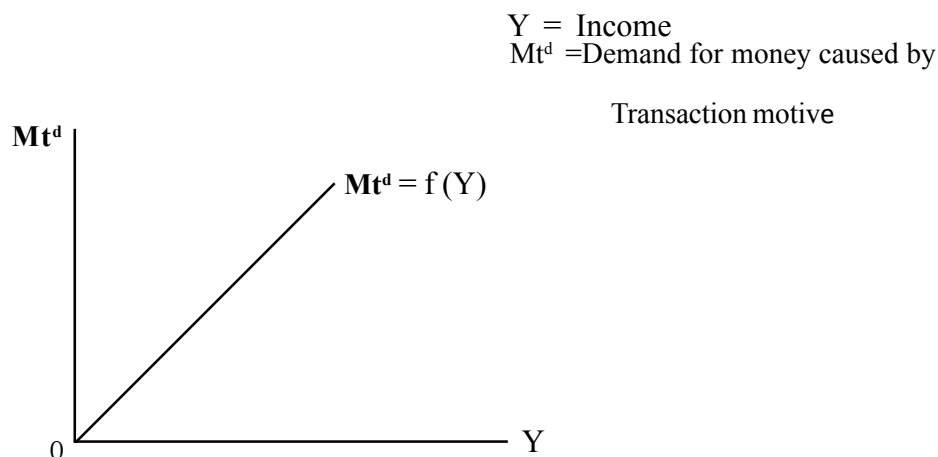
- Pay attention to the instance received by your group. Given below are some instances where people need money. .
 - To buy rice.
 - For an emergency at home.
 - For investment in the share market.
- List as many other instances for the need for money as possible.
- Assume that you have a fixed monthly income, decide how much of that income will be allocated for the relevant purpose received to your group.
- Decide how much of that income will be allocated for the same purpose if the income doubles.
- By using the data above draw a graph to show the relationship between change of income and allocation of money for that particular purpose.

(Use the horizontal axis for money allocated and the vertical axis for income.)
- Using the above graph explain the relationship between the allocation of money relevant to your purpose and income.
- Be prepared to present your results to the class in a creative manner.

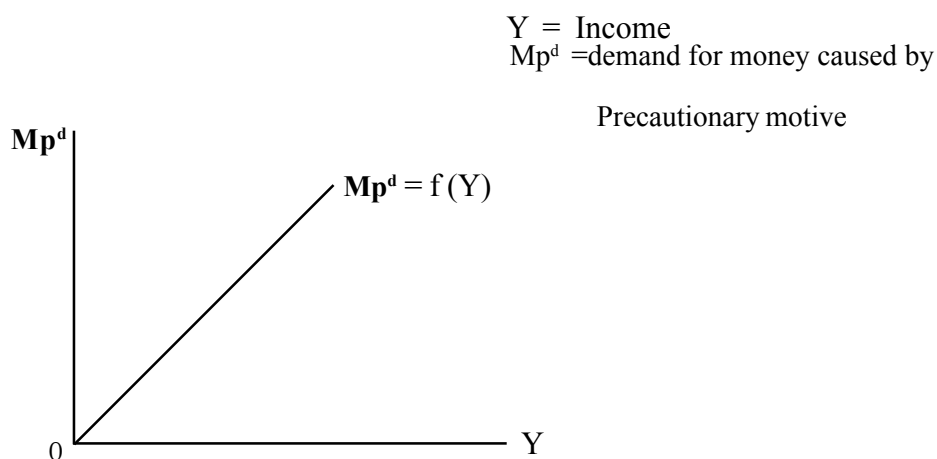
Guidelines to explain subject matter:

- The preference of the people to keep money in the form of money at a given time can be defined as demand for money.
- Demand for money is based on the following three main factors.
 - Transaction motive.
 - Precautionary motive.
 - Speculative motive.
- Since there is a gap between receiving income and spending the income by a person holding money balances for transactions is called demand for money on transaction motive.
- Demand for money on a transaction motive basically depends on the income level of people.

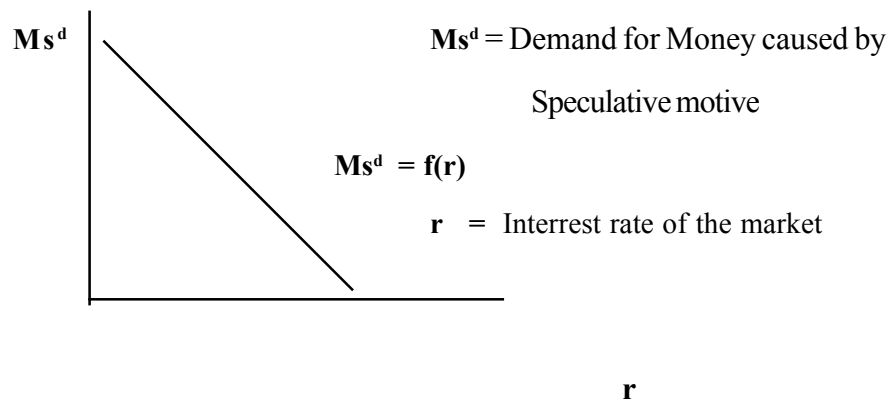
- There is a positive relationship between the income level and demand for money on transaction motive.
- It can be shown by a function and a graph as below.



- Demand for money on a transaction motive is influenced by other factors except income.
- Holding money balances to spend in unexpected situations is known as demand for money on precautionary motive.
- Demand for money on precautionary motive also depends on the income level of people.
- There is a positive relationship between the income and the demand for money on precautionary motive. It can be shown by a function and a graph as below.



- Demand for money to earn profits in future from investments is called the demand for money on speculative motive.
- There is a negative (inverse) relationship between the demand for money on speculative motive and interest rates.
- It can be shown by a function and a graph as below.



$$M_t^d = f(Y)$$

Competency level 7.3: Analytically examines the supply of money in Sri Lanka.

Number of periods : 06

Learning outcomes :

- Defines money supply.
- Explains the factors of money supply.
- Analyses the monetary aggregate separately.
- Analyses the relationship of Base money using the liabilities and assets of the Central Bank.
- Defines money multiplier and presents its determination through equations.

Guidelines to explain subject matter:

- Various kinds of money transactions can happen among the public.
- In these transactions money is circulated among the public.
- The total money stock that circulates among the general public at a given period is called money supply.
- Money supply is a stock concept.
- The items of monetary aggregates which are bank liabilities can be categorized as follows.
 - Base money / High powered money / Reserve money supply
 - Narrow money supply.
 - Broad money supply.
- Broad money concept can be categorized again as
 - M_1 = Narrow money supply
 - M_2 = Broad money supply
 - M_2^b = Consolidated broad money supply
 - M_4 = Very broad money supply
- These concepts can be explained separately.
 - Narrow money supply = Notes and coins with the public + Deposits of public with commercial banks.
$$M_1 = C + DD$$
 - Broad money supply = Narrow money supply + Time and savings deposits of the public with commercial banks.
$$M_2 = M_1 + TSD$$

- Consolidated broad money supply = Broad money supply + Deposits of non residence foreign currency units + Deposits of foreign currency banking units.

$$M_2b = M_2 + TSD_{NRFC} + RD_{FCBU}$$

- Very broad money supply = Consolidated broad money supply + Time and savings deposits of the public with licensed specialized banks + Deposits of residents with registered financial institutions.

$$M_4 = M_2b + RD_{LSB} + RD_{FC}$$

- Base money can be analyzed in two ways.
 - Using Central Bank liabilities.
 - Using Central Bank Assets
- Determinants of base money supply are as follows.
 - Net lending to the government by the Central Bank.
 - Net foreign assets of the Central Bank.
 - Other net assets of the central bank.
 - Lending to commercial banks by the Central Bank.
- Components of high powered money are as follows.
 - Notes and coins in circulation.
 - Deposits of commercial banks with the Central Bank.
 - Deposits of government institutions with the Central Bank.
- Money multiplier is the ratio between money supply and high powered money.
- Therefore multiplication of high powered money and money multiplier is the money supply.
- The relationship of money supply, high powered money, and money multiplier can be shown by the following equations.

$$K = \frac{M}{H} \longrightarrow \text{Money Multiplier} = \frac{\text{Money supply}}{\text{Base of money}}$$

- Categories of money multiplier

• Narrow money multiplier	→	$\frac{M_1}{H}$
• Broad money multiplier	→	$\frac{M_2}{H}$
• Consolidated broad money multiplier	→	$\frac{M_2b}{H}$
• Very broad money multiplier	→	$\frac{M_4}{H}$

- Money multiplier is always a value greater than one.
- Factors that influence the money multiplier can be identified using the formula below.
- Factors that influence the money multiplier can be identified using the formula below.

- Money multiplier ratio $(K) = \frac{(1 + C)}{(C + E + R)}$

- According to the above formula the factors that influence money multiplier can be shown as
 - Legal tender (c)
 - Excess reserve ratio (E)
 - Statutory reserve ratio (R)

- Commercial banks carry out their business activities to achieve two main objectives below.
 - to maintain liquidity
 - to maintain profitability
- There is a conflict between these two objectives
- According to the instructions of the Central Bank commercial banks must maintain a certain percentage of its deposits as a reserve. This ratio is known as statutory reserve rate.
- Central Bank changes this ratio from time to time.
- The statutory reserve of commercial banks are known as "excess reserves" and it can be found as follows.

$$\text{Excess reserve} = \text{Current money reserve} - \text{Statutory reserve}$$

- Surplus reserve is decided on the following factors
 - The demand for loans
 - Selection of commercial bank between liquidity and profitability.
 - Monetary policy of the Central Bank
- Deposit multiplier is the number of times of extension of deposit or creation of credit and bank deposit extensions multiplier shows how many times deposits are created compared to the increase in reserves.
- Deposit multiplier is equal to the difference of statutory reserve ratio

Bank deposit expansion multiplier = $1 / \text{Statutory reserve ratio} = 1/r$

For example : Bank deposit multiplier (K) = $1/r$

if $r = 10\%$ deposit multiplier = $1/10\% = 10$

 - Profitability decreases when liquidity is maintained and liquidity decreases when profitability is maintained
 - Since there is a conflict between the above mentioned aims, it is important to maintain assets to ensure a balance between these aims.
 - Increasing deposits above the existing deposit by lending the surplus reserve of commercial banks is called "creation of credit"
 - Though it is easy to create money when only one bank functions in monopoly, it is impossible for a single bank in the banking system to create money.
 - The process of creation of money by banking system is based on the following assumptions

Competency level: 7.4: Classifies the financial system of Sri Lanka.

Number of periods: 06

Learning outcomes:

- Classifies the financial system of Sri Lanka according to the Central Bank report.
- Describes financial institutions in brief.

Guidelines to explain subject matter:

- Classifies the financial system of Sri Lanka as below.
 - Banking sector
 - Central Bank of Sri Lanka.
 - Licensed commercial banks
 - Licensed specialized banks
 - Other depository financial institutions
 - Registered financial companies
 - Co-operative rural banks
 - Thrift and Credit Co-op Societies.
 - Other special finance institutions
 - Special leasing companies
 - Primary dealers.
 - Merchant banks
 - Financial Brokers
 - Unit Trusts
 - Venture Capital Investment Companies
 - Credit Rating Institutions
 - Accorded savings institutions
 - Insurance companies
 - Employee provident funds
 - Employee trust funds
 - Other provident funds
 - Government services provident funds

Competency Level 7.5: Investigates the functions of commercial banks in the banking system.

Number of periods: 06

Learning outcomes:

- Defines commercial banks
- Explains the functions of commercial banks
- Presents the structure of assets of commercial banks analytically
- Explains the special function of credit creation of commercial banks using numerical data.
- Lists the factors of credit creation of a commercial bank.

Guidelines to explain subject matter:

- The special, very strong and prominent monetary institutions that act as financial intermediaries in the monetary system with profit motive are called commercial banks.
- The services provided by commercial banks can be listed as follows.
 - Accepting deposits
 - Providing loans
 - Long term loans
 - Short term loans
 - Services as an agent
- Providing common utility services
 - Assisting in foreign banking activities
 - Providing pawning services
 - Providing safe keeping services
 - Providing related services in foreign currency transactions
- A proper knowledge of the business activities of the bank can be obtained by analyzing the entries in the balance sheet of the commercial bank.

- The left side of the balance sheet shows the liabilities and the right side of the balance sheet shows the assets of the commercial bank.
- The total of the liabilities should be equal to the total assets of the balance sheet of the commercial bank.

(Help the students to know more about the combined commercial bank balance sheet with reference to the Central Bank report.)

- Commercial banks carry out their business activities to achieve the following objectives.
 - To maintain liquidity
 - To maintain profitability
- There is a clash between these two objectives
- According to the regulations of the Central Bank, commercial banks must maintain a certain percentage of its deposits as a reserve. This ratio is known as the statutory reserve ratio.
- The Central Bank changes this ratio from time to time.
- The amount of reserves exceeding the statutory requirement is called excess reserves. It can be found as follows.

Excess reserve = Current money reserve – Statutory reserve

- Excess reserve is determined based on the following factors
 - The demand for loans
 - Selection of commercial banks between liquidity and profitability.
 - Monetary policies of the Central Bank
- Deposit multiplier is the number of times of expansion of deposit or creation of credit with a demand deposit.

- Deposit multiplier is equal to the reciprocal of statutory reserve ratio.

Bank deposit multiplier (K) = $1 / \text{Statutory reserve ratio} = 1/r$

Eg -: If statutory reserve ratio is 10%, Deposit multiplier is = $1/10\% = 10$.

- When liquidity is maintained profitability decreases and when profitability is maintained, liquidity decreases.

- Since there is a clash between the two objectives, mentioned above, assets should be maintained in a balanced manner.
- Generating more deposits than the existing deposits by lending the excess reserves of commercial banks is called “Credit creation”.
- Since only one bank functions in a monopolistic banking system, credit creation is possible. But it is impossible for a single bank in a banking system to create money.
- The credit creation of the commercial banking system is based on the following assumptions.
 - After making the initial deposit there is no inflow or outflow of money in the banking system.
 - All the borrowers deposit their total amount of loans in another commercial bank.
 - No bank maintains excess reserves.
- There are some factors that influence credit creation.
 - When statutory reserve ratio (r) increases, deposit multiplier decreases and when statutory reserve ratio(r) decreases, the deposit multiplier increases.
- There are limitations to credit creation as follows
 - If people prefer to retain money with them, excess reserves of commercial banks will decline.
 - Credit creation decreases when banks prefer to maintain excess reserves.
 - Decreasing the demand for loans.

Restrictions on expansion of loans by monetary policies of the Central Bank.

Competency Level 7.6: Investigates the role of the Central bank as the apex financial institution of Sri Lanka.

Number of periods: 05

Learning outcomes:

- Defines the Central Bank of Sri Lanka
- Analyses the objectives of the Central Bank of Sri Lanka.
- Lists the functions of the Central Bank of Sri Lanka on the objectives.

Guidelines to explain subject matter:

- The independent body that was set-up to carry out the monetary policy of Sri Lanka is the Central Bank Of Sri Lanka.
- The mission of the Central Bank is to maintain economic and price stability and the stability of the monetary system for sustainable economic development through policies, supervision, commitment and excellence.
- Following are the dual objectives of the Central Bank..
 - To maintain economic and price stability
 - To maintain the stability of the monetary system.
- Economic and price stability means maintenance of a low level of inflation.
- Price Stability is important in order to.
 - Promote economic growth.
 - Distribute resources efficiently.
 - Minimize risks to producers, consumers and investors
 - Make economic planning successfully.
- Creating an effective monitoring framework and strong and protective payment and settlement system for depositors and investors are the infrastructure facilities needed to materialize stability of the monetary system

- Stability of monetary system is important for the following reasons.
 - To make financial institutions and market function effectively.
 - To avoid balance of payment crises.
 - To finalize the price of assets.
 - To protect market liquidity.
- The process of regulating monetary instruments to influence the interest rate and money supply to reach the objectives of economic and price stability and the stability of monetary policy is “monetary policy”.
- The targets of regulating the monetary policy can be shown as follows.
 - Operational target – Amount of high powered money.
 - Intermediate target – Interest and money supply.
 - Final Target – Stability of the monetary system.

Competency Level 7.7: Investigates the use of monetary policy instruments in Sri Lanka.

Number of periods: 06

Learning outcomes:

- Defines the monetary policy.
- Defines the monetary policy instruments.
- Names and explains quantitative monetary instruments
- Names and explains qualitative monetary instruments
- Names and explains credit control instruments

Learning -teaching Process :

Engagement

- Obtain the ideas of students about the functions of the sluice of a tank.
- Conduct a discussion highlighting the following points.
 - The Sluice is used for water management in the tank and distribution of water to required places and the control of the water supply is also affected by the sluice.
 - The Central Bank of Sri Lanka uses various instruments to control the money supply in the country just like a sluice which controls the water supply of a tank..
 - Various instruments that are used by the Central Bank to control the money supply are known as “Monetary policy Instruments”
 - Group the students, give suggested instructions for learning the specific areas for each group and ask them to carry out the activity.

Proposed instructions for Learning:

- The following are some actions taken by the Central Bank as monetary policy instruments last year. Pay attention to the type of action assigned to your group.
- Increasing bank interest rate from 10% to 14%
- Reducing interest rate on borrowing for rubber plantation from 12% to 10%
- Sale of securities worth Rs. Five Million by the Central Bank in the open market
- Increasing reserves maintained by Commercial Banks from 7% to 10%
- Study the type of action assigned to you well.
- Discuss how it influences money supply and supply of loans in the economy
- Explain the relationship between the point given to you and debt control.
- Discuss how it influences money supply and supply of loans in the economy.
- Explain the relationship between credit control and the action assigned to you.
- Be prepared to do a creative presentation about your findings to the whole class.

Guidelines to explain subject matter:

- Influencing the cost of debts and liquidity by changing interest rates and money supply is called monetary policy.
- Quantitative and qualitative monetary instruments are the two main instruments used to operate the monetary policy.
- Quantitative credit control instruments are the common methods of reducing the supply of loans. The volume of loans and the direction of the flow of the loans are controlled by the qualitative credit control instruments.
- Quantitative monetary instruments are of three types such as Bank interest rate, statutory reserve ratio and open market operations.
- Policy interest rates are.
 - Bank interest rate.
 - Repurchasing rate.
 - Reselling rate.

- Among them repurchasing rate and reselling rate are used in the open market operations.

- Qualitative credit control instruments are of various types.

- Credit Ceilings
- Collateral requirements for loans
- Selective interest rates
- Moral suasion.

Competency Level 7.8 : Analyses the financial market in Sri Lanaka

Number of periods : 06

Learning outcomes :

- Defines monetary policy.
- Categorizes monetary market.
- Defines the money market and explains the sub- markets that are operating in the money market.

Guidelines to explain subject matter :

- The institutions or organizational processes which facilitate the exchange of monetary assets are known as monetary market.
- Monetary market can be divided as money market and Capital market
- Liquidity of credit instruments and maturity period are used to distinguish between money market and capital market
- Money market is the market in which transaction of money and short-term monetary instruments are exchanged.
- The main function of the money market is to co-ordinate borrowers and suppliers of short term credits.
- The bills and securities with a maturity period of less than one year are called short term monetary instruments.
- The instruments which are used in the money market are called credits, treasury bills, securities, domestic and foreign bills of exchange and repurchasing agreements of commercial papers.
- The sub markets of the money market are as follows.
 - Inter bank call credit market.
 - Primary and secondary treasury bills market.
 - Local and foreign exchange market.
 - Limited off shore banking market.
- The short term – loan market.
 - Commercial paper market.
 - Re purchasing agreement market

Competency Level 08 : Investigates the type of intervention of the government to achieve macroeconomic objectives.

Competency Level 8.1 : Logically represents the reasons for market failure.

Number of periods : 06

Learning outcomes :

- Defines the failure of the market system.
- Analyses the causes of market failure.
- Analyses how these causes influence the failure of the free market system.

Guidelines to explain subject matter :

- Failure of the free market system means that the market mechanism is unable to allocate scarce resources for social benefit.
- Choices made for private benefits do not always contribute to social benefit.
- Inefficient resource allocation is accrued here.
- The following factors cause market failure.
 - Externalities
 - Imperfect competition
 - Imperfect information
 - Non provision of public goods.
 - Inefficiency in the provision of quasi public goods.
 - Provision of demerit goods.

- Externalities are negative and positive effects in production and consumption for which the third party is not compensated.

Disregarding them is a reason for market failure.

- Creating a monopolistic situation due to the lack of competition in the market system is known as imperfect competition.

- Creating a monopolistic situation due to the lack of competition in the market system is known as imperfect competition.
- Imperfect competition influences market failure as follows.
- Inefficient resource allocation.
- Lower level of production than the socially optimum level.
- The price of the good is relatively higher at a competitive situation than the prevailing price.
- Public goods are the goods and services which have not affected the consumption of one person by the consumption of another person and there is no competition in consumption in which the consumption can not be avoided for non payment.
- Since a price cannot be changed and a profit cannot be obtained from public goods, they are not provided by a market system.
- Under the market economy government should intervene to provide public goods.
- Quasi public goods are the goods and services from which non payers of the price can be restricted though there is no competition in consumption.
- Under the market system quasi public goods are also provided by the government since they are not provided at optimum level.

- Merit goods are the goods in which social benefits are higher than the private benefits.

e.g.:- Education, Health services, Sanitary services

- Since the quasi public goods are not provided at an optimum level under the market economy there is a lack of consumption.
- Therefore, Government should intervene to direct the consumers to the consumption of merit goods.
- The goods and services in which social benefit is lower than the private benefit are demerit goods. They are socially undesirable.
- Under the market system the provision of demerit goods is at a higher level than the socially optimum level.
- Therefore, Government intervention is needed to limit their consumption and production.
- Inefficiency in receiving information required for the decision making of consumers and producers under the market economy is called imperfect information.
- A government can take various steps to prevent market failure.

Competency Level 8.2 : **Examines the effects of externalities on market failures.**

Number of periods : **06**

Learning outcomes :

- Defines externalities
- Explain the difference between positive and negative externalities with examples..
- Provides examples for positive and negative externalities of production and consumption.
- Explains how market failure occur due to externalities.
- Provide proposals to overcome the problems of market failure which stemmed from externalities.

Learning -teaching Process :

Engagement

- Exhibit two enlarged photographs of externalities to the class

Example :- A factory and a mill

- Ask students' ideas related to favourable and unfavourable impacts shown by the photographs.
- Develop a discussion by highlighting the facts below related to favourable and unfavourable effects to the society from the things depicted the photographs.

Example : - increase in price of accommodation facilities due to the existence of factories

spread of deceases such as dengui and Filaria due to clean water lying in King coconut discards.

- Society will not receive any compensation nor will they be penalized or they do not bear any expenditure on this account..
- In this way the benefits or losses borne by any external party that does not directly participate in an economic activity are identified as externalities.
- Externalities arise either as the result of production or consumption
- group students appropriately by providing necessary guidance for the activities below.

Proposed instructions for Learning:

- Pay attention to the topic given to you from the topics below.
 - Externalities of production
 - Externalities of consumption
- Develop a discussion to understand the topic given
- Collect information relevant to your topic based on your experiences
- List out externalities based on the information gathered and separate them according to favourable and unfavourable externalities.
- Identify the reasons and effects of externalities and ways of avoiding these.
- Be ready to present your findings to the class.

Guidelines to explain subject matter:

- Externalities are the non compensated benefits or losses borne by an external party that is not participating in an economic activity.
- Externalities arise from consumption as well as production.
- Benefits or losses borne by an external party due to a production activity is identified as externalities of production.
- Benefits or losses born to an external party due to a consumption activity is identified as externalities of consumption
- Examples of positive externalities of production
 - Research focused on new technology
 - Beautiful gardens
- Examples of positive externalities of productions are given below.
 - the research focused new technology.
 - beautiful parks and gardens.
- Examples of negative externalities of production are;
 - Industrial activities that burn fossil fuels.
 - Industrial activities that deplete the ozone layer.
- Examples of positive externalities of consumption are;
 - educational T. V. programmes

- Examples of positive externalities of consumption are;
 - educational T. V. programmes
- Examples of negative externalities of consumption are;
 - collection of garbage
 - emission of smoke (fumes) from vehicles.
- Negative externalities involve external costs and positive externalities involve external benefits.
- Social costs and social benefits are based on external costs and benefits.

$$\begin{array}{l} \text{private costs} + \text{external costs} = \text{Social costs} \\ \text{private benefits} + \text{external benefits} = \text{social benefits.} \end{array}$$
- Only private costs and private benefits are taken into account in a market economy.
- The decisions taken on the production and consumption of goods and services are not optimum decisions as externalities are not taken into consideration.
- This situation is illustrated by the following graph. (Fig. 1)

Price, unit cost & benefit

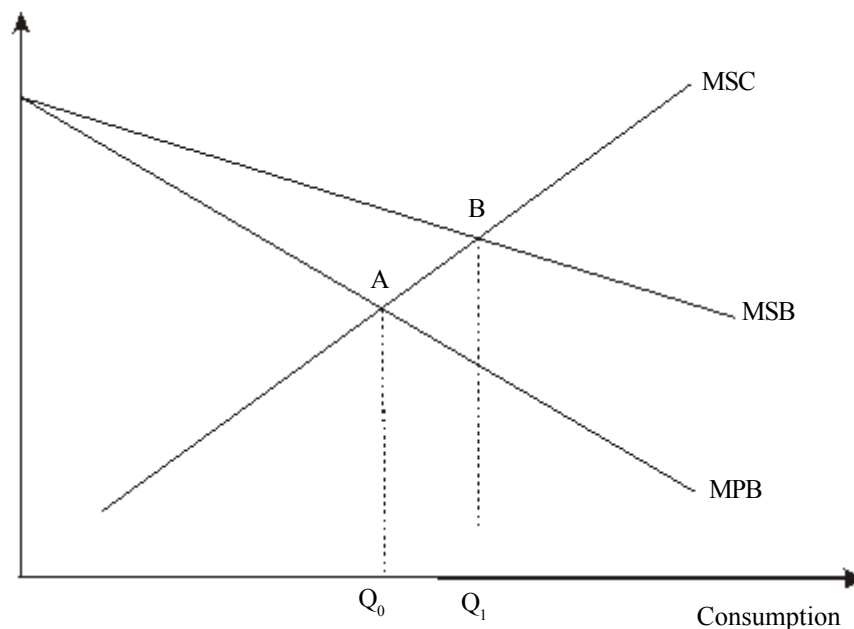


Fig. 1

MSC = Marginal Social Costs
 MSB = Marginal Social Benefits
 MPB = Marginal Private Benefits

- According to fig 1 the equilibrium point (optimum point) is at point “A” where MSC is equal to MPB. Equilibrium (optimum) quantity produced and consumed is Q_0 .
- But when the social benefits are taken into account optimum equilibrium point is at point “B” where MSC is equal to MSB. Q_1 is the equilibrium production and consumption point.
- When there is a positive externality of consumption, optimum consumption exceeds optimum market consumption when social benefits are less.

Price, unit cost & benefit

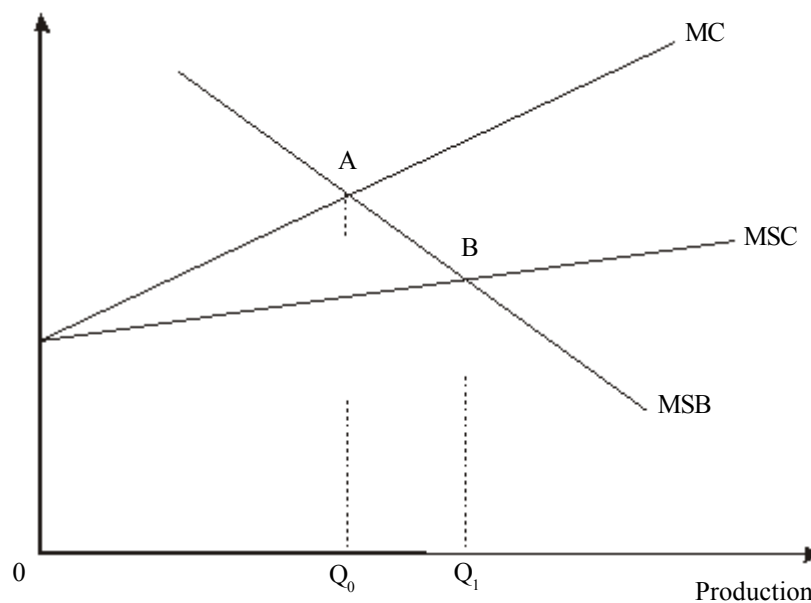


Fig. 2

MC = Marginal Costs

MSC= Marginal Social Costs

MSB = Marginal Private Benefits

- According to graph Fig. 2 optimum market production is at “A” where MC is equal to MSB. Q_0 is the equilibrium and optimum level of production.
- When Social benefits are considered, optimum production is at “B” where $MSC = MSB$ Q_1 is the equilibrium and optimum production point.

- When there is a positive externality of production and social benefits are taken into account, optimum production exceeds the optimum market production.
- It is understood that externalities causes market failures.
- Following steps can be taken to prevent ill effects caused by externalities.
 - Compensation
 - Internalization
 - Rationing
 - Charging license fees
 - Fines
 - Imposing regulations
- Various steps have been taken by firms to prevent externalities.

Example • Allocation of part of profit for indemnification .

- Fixing modern devices in factories to minimize noise pollution.
- Recycling of garbage.

Competency level 8.3 : Examines the role of the government in the market system.

Number of periods : 06

Learning outcomes :

- Identifies the role of the government in the market economic system.
- Defines the role of the government.
- Points out how the influence of the government affects the efficiency of the market
- Analyzes with examples the steps taken by the government in a free market economic system.
- Explains the effects of government role on the economy in the market economic system.
- Explains why a government fails to play its role successfully via market economy.

Guidelines to explain subject matter:

- Government role in a market economy can be as follows.
 - allocation/distribution of resources efficiently.
 - distribution of income and wealth fairly/equally.
 - formulation of rules and regulations and good governance.
 - stabilization of macro - economic policies.
 - achieving economic development and sustainable development.
 - provision of infrastructural facilities.
- The government ensures, the creation of legal foundation and social environment required to create an efficient market mechanism.
- The government has taken the following action to minimize inefficiency in the market economy.
 - Production of public & welfare goods.
 - Prevention of imperfect competition.
 - Greater focus on the prevention of externalities like environmental pollution.
 - Ensuring the ownership of public resources.

- The government takes following actions to ensure equity.
 - redistribution of income and wealth.
 - Limitations on assimilation of wealth.
 - Land reforms.
- The government makes use of fiscal policy to minimize inflation and unemployment in order to achieve macro - economic stability.
- The government endeavours to increase the level of economic development and the level of development of the country.
- The government provides the following in order to develop infrastructure facilities.
 - Provision of physical Infrastructure facilities.
 - Example; Main roads, highways, bridges, airports, buildings.
 - provision of institutional infrastructure facilities.
 - Example; Legal structure, courts, regulatory institutions.
- When the government intervenes the market economic system it is unable to achieve expected results and it increases the inefficiency in the economy, due to its inherent weaknesses. It is called government failure.
- Government intervention to control market failure causes government failures.

Competency level 8.4 : Investigates the use of Fiscal policy to achieve macro economic objectives.

Number of periods : 06

Learning outcomes :

- Defines the fiscal policy
- Lists and explains the components / instruments of the fiscal policy.
- Analyses, with examples how the government uses its fiscal policy to achieve macro economic objectives.
- Explains the conflicts arising while achieving macro - economic objectives.
- Suggests how to minimize problems arising in the process of achieving macro economic objectives.

Guidelines to explain subject matter:

- The objectives that are expected to be achieved through macro economic activities are macro - economic objectives.
- Every economy in the world expects to achieve the following common macro - economic objectives.
 - Full employment
 - Economic growth
 - Price stability
 - Favourable balance of payment
 - Sustainable development
- Achievement of macro - economic objectives depend on the economic activities of the country.
- Functions of the economy are determined by the level of variable factors of macro economy and the time taken.
- There is a number of macro - economic variables in an economy.
eg. production, rate of employment, price level and consumption.
- The level of macro - economic variable factors and how they change with time are determined by internal & external factors.

- When macro - economic variable factors do not change in a positive manner the economy will not function well.
- The problems arising as a result of the economic activities in the entire economy are called macro economic problems.
eg. unemployment, increase in inflation, declining foreign exchange rates.
- These problems can be solved by bringing macro economic variable factors to a favourable position.
- Managing the economy towards achieving macro economic objectives is known as “macro economic management”.
- All the activities of macro - economic management are known as “macro economic policies”.
eg. - Monetary policy, fiscal policy, international trade policy.
- Influencing macro economic variables through the control of government revenue and expenditure is called fiscal policy (budgetary policy)
- The main instruments of fiscal policy are taxation, government expenditure and government debt.
- As the fiscal policy influences aggregate demand, fiscal and monetary policies are known as “demand management policy”.
- Conflicts arise when attempting to achieve certain macro economic objectives by using fiscal policy.
eg. - If the government proposes to borrow money for investments in order to achieve full employment, it might increase inflation as a result of higher wages. As a result, achieving price stability will be difficult.
- When the government tries to achieve increase in economic growth by giving tax relief and subsidies though the government is able to achieve economic growth by giving tax relief subsidies, it may have negative effects on achieving sustainable development.
- It is difficult to achieve all the macro economic objectives at the same time as conflicts between these objectives may arise when different measures are taken to achieve them . Therefore, attention has to be paid to minimize reasons that lead to such problems.
- So it is important to put the fiscal policy in a way to ensure that these conflicts are minimized.

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Competency level 8.5 : Examines the tax system as a main source of government revenue.

Number of periods : 06

Learning outcomes :

- Names and explains the main sources of government revenue.
- States the composition of government tax revenue.
- Names and explains tax principles.
- Classifies different types of taxes.
- Points out the positive and negative effects of the tax system on the economy.
- Explains the structure of the government revenue of Sri Lanka.
- Explains the trends of government revenue of Sri Lanka.

Guidelines to explain subject matter:

- Two major sources of government revenue.
 - Tax revenue
 - Non-tax revenue
- There are different principles of imposing taxes.
- The burden of taxes is called tax incidence.
- Government taxes can be divided into two parts
 - i. direct tax
 - ii. indirect tax
- Payment of tax directly by a individual or a firm is direct tax; it depends on income, wealth and properties of the direct tax payer.
eg. - income tax, stamp tax.
- The taxes that is not imposed only an the tax payer is called indirect tax.
eg. - taxes on goods and services, business turn over tax
- Tax can be classified in to there types depending on rate of tax charged.
 - proportional tax
 - progressive tax
 - regressive tax
- Government revenue of Sri Lanka consists of tax revenue and non-tax revenue.
- The composition of government revenue and trends of income can be examined with the help of the Central Bank Report of Sri Lanka.

Competency level 8.6

: **Reveals recent changes in the composition of government expenditure.**

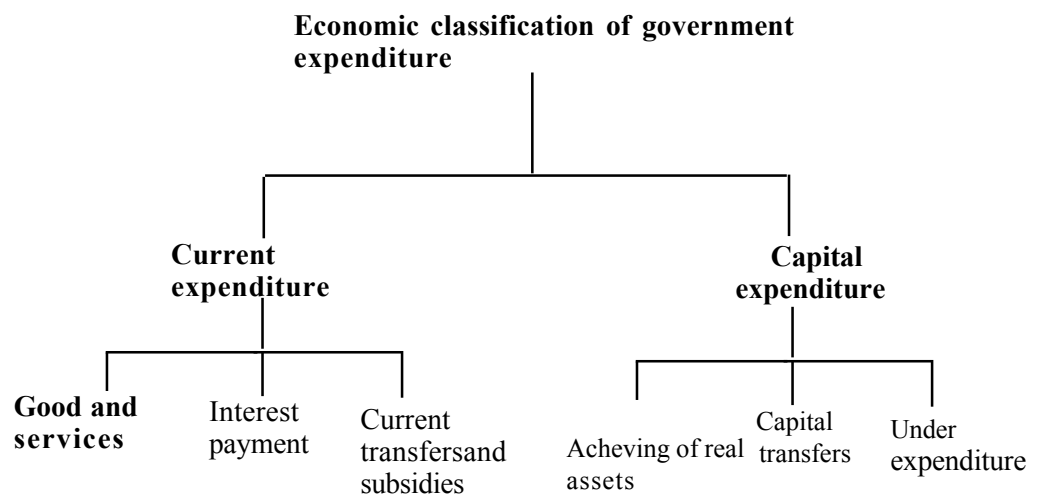
Number of periods : 06

Learning outcomes :

- Defines government expenditure
- Classifies government expenditure according to economic analysis and explains each with examples.
- Classifies government expenditure based on functional classification and explains each with examples.
- Points out the trends of government expenditure.
- Identifies economic effects of government expenditure.

Guideline to expand subject matters:

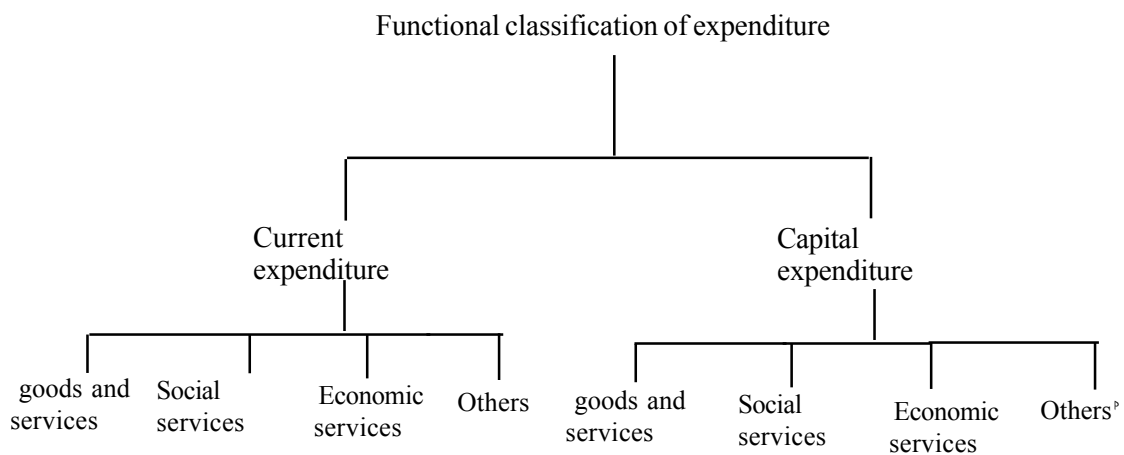
- Government expenditure is expenditure of the government spending on state affairs.
- Government expenditure according to functional classification is shown on the flow chart below.



- Expenditure on consumption goods are called current expenditure and expenditure on capital is called capital expenditure.
- The expenditure on carrying out of all government services is known as current expenditure.

eg. Salaries, Stationary, Rent, Transport costs, Charges on Electricity and Telecommunication -

- The expenditure on the production of capital goods, is known as capital expenditure
eg. - Office furniture, Office appliances, buildings, vehicles and Construction of roads.
- Purchase of properties and buildings are included in capital expenditure on acquisition of real assets.
- The capital transfers to government co-operations, government office and boards are all included in capital transfers.
- Government expenditure according to functional classification is shown on the flow chart below.
- There is a tendency for a quantitative increase in total expenditure in recent years in Sri Lanka.
- Government capital investments and net lending will generate a large amount of benefits in the future are government investments.
- Government makes investments directly mainly due to the following reasons.
- There is a need for the production of some capital goods which are not produced by the private sector in order to ensure economic growth.



- Provide facilities and services which are needed to create a conducive environment for investments by the private sector.
- Government capital expenditure and net lending were limited till recent times due to,
 - increase in expenditure in defence.
 - increase in loan payment (payment of interest on loans)
 - increase in current transfers.
- The following factors have affected gradual increase in government capital expenditure in recent years.
- Examples of large scale Infrastructural development projects.
 - Gama Neguma
 - Southern Province rural development projects.
 - Small scale irrigation projects.
 - Rehabilitation and provincial government projects.

Competency Level 8.7 : **Analytically investigates economic effects of government budget policies.**

Number of periods : 06

Learning outcomes :

- Defines the government budget and prepares its structure.
- Classifies the budget as deficit, surplus and balanced budget.
- Describes the budget policies and examines the effects of expansionary and contractible budget policies on the economy.
- Expresses the ideas about the importance of spending according to income.
- Suggests more appropriate budget proposals for an economy.
- Explains the structure of the government revenue of Sri Lanka.
- Explains the trends of the government revenue of Sri Lanka.

Learning and teaching process:

Engagement

- Display the following news paper headline to the class “Government budget proposals to the parliament tomorrow”
 - Elicit ideas of the students about the news paper headline.
 - Conduct a class discussion highlighting the following points
 - Budget proposals reveal information about the expected revenue and expenditure of the government for the next year.
 - The government covers its expenditure with the revenue earned from various sources.
 - The government has to take various steps to collect money in case it is unable to earn adequate revenue to cover expenditure.
 - Group the students in an appropriate manner, give the suggested instructions and assign the students to do the activity.

Proposed instruction for learning:

- The following is a list of data of expected revenue and expenditure of the governments of three countries for the next year.

Country “A”

Revenue	Rs. m.
Income tax	20
Goods and service tax	70
Tax on international trade	10
Non-tax revenue	50
Expenditure	
Salaries and wages	70
Interest payments	10
Subsidies and transfers	18
Other goods and services	12
Capital expenditure	35
Other expenses	05

Country “B”

Revenue	Rs. m.
Income tax	30
Goods and service tax	70
Tax on international trade	100
Non-tax revenue	100
Expenditure	
Salaries and wages	100
Interest payments	50
Subsidies and transfers	80
Other goods and services	70
Capital expenditure	100
Other expenses	20

Country “C”

Revenue	Rs. m.
Income tax	80
Goods and service tax	85
Tax on international trade	135
Non-tax revenue	100
Expenditure	
Salaries and wages	100
Interest payments	30
Subsidies and transfers	70
Other goods and services	50
Capital expenditure	70
Other expenses	60

- Study well the information on revenue and expenditure of the country assigned to you.
- Use a structure you know to match revenue and expenditure and obtain the final result.
- Explain the condition that may prevail in the country next year after matching revenue and expenditure.
- Suggest what activities the particular government should implement to face such a situation.
- Highlight through a class discussion how these activities affect the economy of the country.
- Be prepared to present your findings to the class effectively/creatively.

Guidelines to explain subject matter:

- The government budget is the document/report of proposals that contains the details of expected government expenditure and how the government is expected to collect revenue to meet expenditure for the next year that is presented to the council and approved by it.
- a • There is a difference between an individual's budget and the government budget.
- Total budget balanced is obtained by matching total government revenue and expenditure.

- Budget can be classified as deficit, surplus or balanced budget based on the nature of the total budget balance.
 - If there is a budget deficit it has to be rectified.
(Preparation of budget should be explained to the students with reference to Central Bank Report)
 - Expansionary and contractible budget policies are used to settle budget deficit.
 - If the loans that are obtained to settle budget deficit increases the money supply in the country, such loans are known as “expansionary loans”.
 - If the loans taken do not affect the supply of money in the economy, they are known as “contractible loans”
 - Examples of expansionary loans are as follows.
 - Government obtaining loans from the Central Bank
 - Obtaining loans from the Commercial Banks.
 - Obtaining foreign loans.
- Examples of contractible loans are giving below.
- Obtaining loans from non-banking institutions
 - Taking loans from the general public.
- Contractible budget policies are more favourable for an economy than expansionary budget policies.

Competency Level 8.8 : Investigates the government budget and its economic effects

Number of periods : 06

Learning outcome :

- Explains the budgetary position of Sri Lanka using statistical data.
- Gives reasons for the budget deficit in Sri Lanka.
- Analyses the effect of the budget deficit on the economy of Sri Lanka.
- Finds out the sources to bridge the budget deficit.
- Gives ideas /suggestions of more relevant policies that can be used to bridge the gap between revenue and expenditure.

Guidelines to explain subject matter:

(Students' attention should be paid to current budgetary situation in Sri Lanka.)

- Examples of factors that affected budget deficit in Sri Lanka in recent years.
 - Reduction in tax revenue due to tax relief
 - Increase in expenditure when paying Bank debts.
 - Increase in transfer costs of the government.
 - Increase in expenditure on public sections.
- Various steps have been taken to settle the budget deficit in Sri Lanka.
 - eg. use of foreign financial resources
 - Foreign loans
 - Foreign grants.
 - Use of local financial resources
 - Borrowing from the market

- Persistent budget deficit will have many effects on the economy of a country.

Examples • increase in state loans

- increase in inflation
 - decrease in investment by private sectors
 - rise in interest rates.
 - declining international credibility
 - reduction in foreign exchange rates/ values.
 - decrease in local savings.
- An economy can gain many things as it reduces budget deficit.
 - A deficit in the current account of an economy will result in disadvantages effects and a surplus in a country's current account will result in advantages.
 - The advantages of having a surplus in current account are as follows.

Examples • reduction in burden of state loans.

- decrease in inflationary effects.
 - increase in government investments
 - ability to maintain interest rates at a low level
 - reduction of tax burden on people.
 - leading to macro - economic stability.
- It is advisable to use non - expansionary methods to finance the budget deficit.

Competency Level 8.9 : Discuss th composition of state loans and its trends

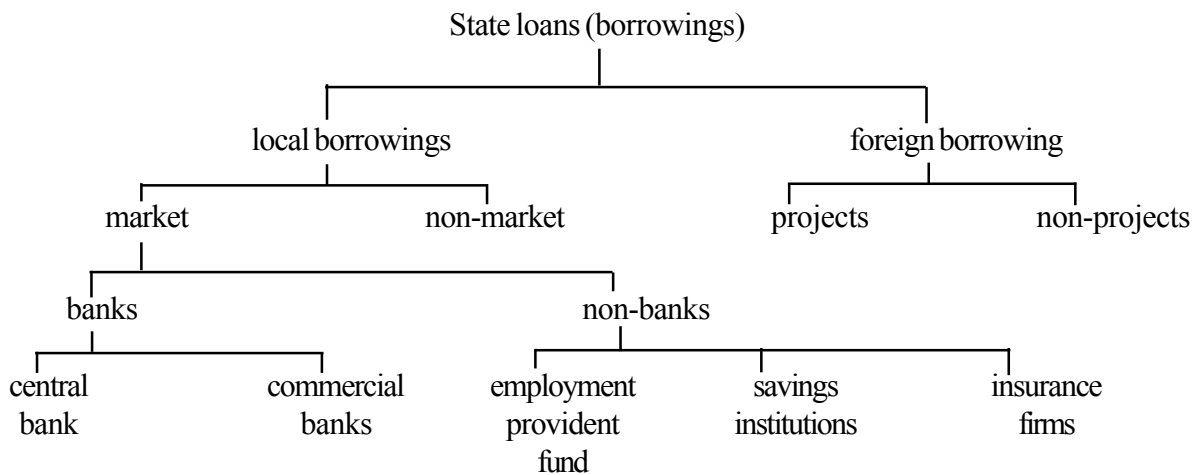
Number of periods : 06

Learning outcomes :

- Defines state loans and shows the sources of state borrowings on a flow chart.
- Analyses the effects of burden of state borrowings on the economy.
- Explains how the state pays back loans
- Examines the recent trends of borrowings of the state.

Guidelines to explain subject matter:

- The loans that the government takes on the condition that its pays it back with interest is known as state borrowings.
- The government borrows from local sources as well as foreign sources.
- It can be shown on the following flow chart.



- The borrowings of the state from the monetary market and capital market are known as “market borrowing” (loans)

Examples. • A large part of government revenue has to be paid as loans and interest on the loan.

- Only a small part of the government revenue remains behind in order to spend to achieve development objectives and for other needs.
 - increase in interest rates in the local market.
 - Decrease in external value of the local currency.
- Reduction in resource allocation to the public sector reduce private investments and it has a negative effect on economic development
 - Difficulty in state monetary system management and state debt management causes inflation.
 - Creation of inflation due to borrowings from banking sector.
 - Balance of payment problems arise as a result of increase in total expenditure.
 - Needs to face a crisis in international debt.
 - Decline in local savings rate.
 - Damaging international competition by the decrease in monetary value of foreign exchange rates due to inflation in the economy.
 - Payment of loan instalments with interest on the total state borrowings is known as debt service payment”.
 - The loan instalments on the total borrowings of the government and the interest to be paid on them can be shown as a percentage of domestic production. It is known as debt service ratio.
 - Different types of debt service ratios can be calculated by using debt instalments and interests, export revenue, government revenue and government expenditure.
 - The debt service ratios are calculated in different ways an shown as debt service index.
 - Examples of recent trends of borrowings of Sri Lanka are;

- Continuous decrease in the debts that have not been settled as a percentage of the gross domestic product.
 - A large amount of the total borrowings is domestic (local) loans.
 - Middle term and long term loans are greater than the short term loans according maturity period.
 - Loans taken from non-banks are greater than the loan taken from banking sector.
 - The main component (instrument) of unsettled local loans is treasury bonds.
 - The loans on concessional interest rates are more important in foreign loans.
- When taken as a percentage of GDP, there is drift in the debt service payment .
 - It is important that governments loans are managed extremely well.

Competency Level 8.10 : **Analyses the economic effects (effects on the economy) of government supply development policies.**

Number of periods : 06

Learning outcomes :

- Defines supply development policy.
- Explains various activities of supply development policy with examples.
- Analyses the economic effects of supply development policies

Guidelines to explain subject matter:

- Provision of facilities to encourage production is supply development policy.
- Investments increase, costs of production decrease and increases the productivity of factors of production when supply develop policy works.
- Supply development policy can achieve expected level of macro economic variables.
- Various supply development policies can be used to encorage production and such activities are given below.
 - Tax reforms
 - Privatisation
 - Monitoring
 - Reforms of labour market
 - Reforms of capital market
- Making changes in tax system in order to increase production is known as tax reforms.
- Imposing taxes can affect the competetiveness of the market.
- Optimum level of production, consumption, investments and savings will be lost as a result of taxation.
- Therefore it is important to be compassionate when imposing taxes in order to minimise influence of taxes on competitenets of the market.
Example - tax relief, tax exemption, reduction of taxes

- When these concessions are given, cost of production will be reduced and production will increase.
- Supply by taxes may affect the economy positively and negatively.

- eg.
- negative effects of tax reforms are;
 - reduction of government revenue due to decrease in taxes.
 - increase in unequal distribution of income
 - tendency to increase the consumption of unwanted goods.
 - positive effects of tax reforms are;
 - increase in production
 - covering the losses of tax concession by the optimum levels of

consumption investments and savings.

- It is important to make use of tax reforms as supply development policy in a way to minimise its negative effects on an economy.
- Making use of the private sector to manage the business activities under the ownership of the government (business activities managed by the public sector) is known as privatization.
- Different methods of privatization are given below.
 - Sale or transfer full or a part of ownership of public sector firms to the private sector.
 - Providing the authority of management of public establishments to the private sector.
 - Taking over of certain private firms which belong to the public sector.
- Privatisation can cause both positive and negative effects on the economy.
- Positive effects are as follows.
 - efficient production due to greater productive employment of resources in the process of production.
 - End of government monopoly and creation of competitive markets.
 - Relieving the burden on government budget.
 - Removing political influence on business activities.
 - Harnessing solutions to problems of lack of capital.
 - Rise in quality of goods and services produced.

- Decrease in cost of production
 - Prevention of waste, corruption and fraud.
 - Receiving quick response to the customer wants.
- Renewal of government regulations and the regulation created by society which (Social factors) affect to reduction of the competitiveness in the market is known as “deregulation”.
 - eg. • relaxing the rigid regulations concerning setting up of a business. (regarding location of a business, getting approval for acquiring the capital to start it.)
 - Reducing strict government supervision that can disturb free trade.
 - Preventing the increase in costs of transaction of goods as a result of the influence of social factors (when selling fish certain individuals demand that it be at a higher price than the price fixed by the supplier/producer this difference of the price is not given to the producer)
 - Removal of obstacles that affect competitiveness in the market by deregulation and strengthening the producers. It reduces the cost of production increases productivity and helps increase production.
 - Total deregulation may have a negative influence on the economy though it affects positively to reduce cost of production increase investments and increase production.
example. providing harmful goods and services for consumption to the market.
 - Possible production of low quality goods.
 - Import of unwanted or harmful goods to the economy.
 - Deregulation should be carried out within some limits in order to minimise their ill effects on the economy.
 - Making relevant changes in order to retain the rigid nature of demand and supply of labour in the labour market.

Example. • Removing rigid/strict labour laws.

- Taking actions not to recruit people who are not competent in certain professions.
- Making the workers aware of training programmes relevant to different jobs.
- Competitive labour market is created by the reforms done with regard to demand and supply.
- It helps to increase the level of production in the economy.
- But it is important to know that attention is not paid to implement the reforms within certain limits, it may have negative effects on the economy.
 - eg. • It private firms are given freedom to recruit people for their firms it may cause injustice to these worker. When they are removed from service during the time there is not adequate work to be done.
- Labour market reforms should be used as supply development policy to minimise the negative effects of such reforms.
- Taking action to solve the problems of lack of capital that hinders increase in production is known as “Capital market reforms”.
 - eg. • Increase in productivity of capital
 - Encouraging direct foreign investments.
 - Obtaining foreign loans on favourable terms.
 - Taking steps to increase savings
- Rise of production with increased investments as a result of these reforms creates a healthy situation.
- It may cause an unhealthy situation too.
 - eg. • Sending profits and dividends earned from increased foreign investments to foreign countries.
 - Spending a large amount of money on loan instalments and interests on foreign loans.
 - It might affect social welfare negatively if the government reduced current expenditure.
 - When capital market reforms are used as supply development policy, it should be done in a way to ensure that negative influences are removed.

Competency 9 : Analysis the effects of international trade and finance on the overall economy of a country

Competency Level 9.1 : Investigates the basis of international trade.

Number of periods : 05

Learning outcomes :

- Defines international trade.
- Defines theories of absolute advantage and comparative advantage as the base of international trade.
- Chooses the country that has absolute advantage and comparative advantage in the production of an article using the given data.
- Lists advantages that could be gained through international trade.

Learning -Teaching Process:

Engagement:

- Inquire from the students the reasons, why Japan purchases apparels from Sri Lanka and Sri Lanka purchases motor cars from Japan.
- Conduct a discussion focusing on the following factors.
 - Japan is more efficient than Sri Lanka in the production of motor cars while Japan is less efficient than Sri Lanka in the production of apparels.
 - Sri Lanka is more efficient than Japan in the production of apparels while Sri Lanka is less efficient than Japan in the production of motor cars.
 - Hence, Sri Lanka produces more apparels and exports to Japan and purchases motor cars from Japan.
 - Japan produces more motor cars and exports to Sri Lanka and purchases apparels from Sri Lanka.
 - This is how international trade takes place among countries.
- Group the students appropriately and give instructions for the proposed learning and engage them in the activity.

Proposed instructions for learning:

- Pay your attention to the table given to you from the given two tables which includes production information for the following four countries.

- Table 01

Production	Sri Lanka	USA
Apparels (units/per man hour)	12	02
Wheat flour (kilograms/per man hour)	08	10

(It is assumed that both countries have the same labour costs.)

- Table 02

Production	Japan	Sri Lanka
Motor cars (units/per man hour)	06	01
Footwear (units/per man hour)	04	02

(It is assumed that both countries have the same labour cost)

- Study the information related to the output of both goods of the two countries mentioned in the table given to you thoroughly.
- Identify the type of goods that can be produced more efficiently and less efficiently in relation to the two countries according to the information given.
- If one country expects to engage in international trade with some other country on the basis of efficiency of the two goods above, explain which good is produced more to be exported and which good is imported.
- Calculate the opportunity cost of producing each type of goods in both countries.
- According to the opportunity cost you calculated explain which type of goods has advantage in greatest production to both countries and which type of goods should be imported.
- List the advantages that countries can gain if import/export trade takes place between countries.
- Prepare yourself to present your findings creatively to the entire class.

Proposed instructions for learning:

- Pay attention to the table given to you from the two tables given which includes production information for the following four countries.

- **Table 01**

Production	Sri Lanka	USA
Apparels (units/per man hour)	12	02
Wheat flour (kilograms/per man hour)	08	10

(It is assumed that both countries have the same labour costs.)

- **Table 02**

Production	Japan	Sri Lanka
Motor cars (units/per man hour)	06	01
Footwear (units/per man hour)	04	02

(It is assumed that both countries have the same labour cost)

- Study carefully the information related to the output of both goods of the two countries mentioned in the table given to you.
- Identify the type of goods that can be produced more efficiently and less efficiently in relation to the two countries according to the given information.
- If one country expects to engage in international trade with some other country on the basis of efficiency of the two goods above, explain which good is produced more to be exported and which good is imported.
- Calculate the opportunity cost of producing of each type of goods in both countries.
- According to the opportunity cost you calculated explain which types of goods should be produced more by each country and which type of goods should be imported.
- List the advantages that countries can gain if import/export trade takes place between countries.
- Prepare yourself to present your findings creatively to the entire class.

Guidelines to explain the subject matter:

- Exchange of goods and services by a country with other countries in the world is known as international trade.
- Different factors influence trade among countries.
- Different theories related to international trade explain these factors.
- The Absolute advantage theory and the comparative advantage theory can be taken as examples of the theories which describe international trade.
- The Absolute advantage theory is based on the efficiency of production.
- According to the economist “Adam Smith” (1776) who introduced the absolute advantage theory to the world, the definition is,

“If a country can produce a good with less cost of resources than its trading partner that country can obtain the advantage by producing and exporting it and importing the goods which need more cost of resources. “

- The theory of absolute advantage can be explained through the example given below.

Production	Sri Lanka	USA
Apparel (Units/per man hour)	12	02
Wheat flour (kg/per man hour)	08	10

- According to the above example, since Sri Lanka can produce apparel with less resource cost than USA Sri Lanka possesses the absolute advantage in the production of apparel and USA has the absolute disadvantage in wheat flour production.
- Since the USA can produce wheat flour with less resource cost than Sri Lanka, the USA possesses the absolute advantage in the production of wheat flour and Sri Lanka has absolute disadvantage in the production of wheat flour.
- Hence Sri Lanka can gain more benefits by producing more apparel which has a greater absolute advantage while selling the excess to USA and buying wheat flour from USA which has an absolute disadvantage to Sri Lanka.
- The USA can produce more wheat flour for which they have absolute advantage and sell the excess to Sri Lanka to buy apparel from Sri Lanka, for which they have absolute disadvantage.

- Accordingly, international trade can occur between USA and SL on the basis of absolute advantage.
- The economist David Ricardo introduced the theory of comparative advantage to the world (1817) citing the weaknesses of the absolute advantage theory.
- Accordingly Japan has the comparative advantage over producing motor cars while India has the comparative advantage over producing radios.
- When both countries get involved in trading, Japan gets specialized in the production of motor cars while India gets specialized in the production of radios and both countries can gain benefits by exchanging the excess produced due to the specialization of the two countries.
- The Advantages a country can attain by involving in international trade can be divided into two main parts as follows.
 - Advantages of specialization
 - Advantages of exchange
- There are two parts of comparative advantage which leads a country towards international trade.
 - Static advantage
 - Dynamic advantage
- An advantage a country inherits naturally due to its production and consumption is known as static benefit. The following factors cause static advantage to occur;
 - Resource endowment
 - Differences in the taste of countries
 - Returns to scale in production
- The benefits that occur due to the creation of conditions such as technical improvement, product differentiation, government policies, trade agreements etc. are known as dynamic benefits.
- The comparative advantage in the international trade can be explained via both production possibility and production cost.
- In a production possibility data schedule output units are indicated while input units are indicated in a data schedule of production cost.
 - The way of opportunity cost is calculated by means of production possibility and production cost is different from each other.

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- The comparative advantage in the international trade can be explained via both production possibility and production cost.
- In a production possibility data schedule output units are indicated while input units are indicated in a data schedule of production cost.
 - The way of opportunity cost is calculated by means of production possibility and production cost is different from each other.

Competency Level 9.2 : Analyses the impact of protectionist policies in international trade.

Number of Periods : 06

Learning outcomes :

- Defines free trade.
- Explains economic effects of protection measures.
- Describes arguments for and against protectionism.
- Introduces the institutions that regulate international trade.

Guideline to explain the subject matter:

- Allowing unrestricted mobility/ movement of goods, services and factors among countries is known as free trade.
- Any measure that limits the entry of foreign goods to the domestic market freely is considered as protectionism. Protective measures can be divided into two parts.
 - Tariff measures
 - Non-tariff barriers
- Tariffs as a protection measure can be used as follows
 - Imposition of import tariffs.
 - Imposition of export tariffs.
 - Non - tariff protection measures can be pointed out as follows.
 - Rationing
- Foreign exchange control.
- Banning of import
- import export license
- Implementation of trade agreements.
- Dumping
- Establishment of Cartels
- Regional economic cooperation
- Issue of production standardization.

- Advantages and disadvantages of protectionism can be divided as follows.

Advantages	Disadvantages
1. Protection of domestic infant industries from international competition	1. Contraction of domestic and foreign markets.
2. Establishment of self sufficiency	2. A fall in national income and The contraction of foreign trade.
3. Prevention of unemployment	3. Inefficient industries due to lack of incentives to reduce cost of production domestic products
4. Prevention of dumping	4. A fall in the production of high quality goods
5. Correction of unfavorable balance of payments.	5. Lack of access to the advanced technology.

- We can argue for and against, for the advantages and disadvantages mentioned above .
- There are institutions to regulate international trade.
- World Trade Organization (WTO) can be identified as a major institution that regulates international trade.
- The World Trade Organization has been formed with the objective of relaxing protectionism.
- The World Trade organization has been established on the basis of the following objectives.
 - Widening of global trade by reducing tariffs that hamper free trade.
 - Promoting free trade for investments which influence the agricultural trade in the international trade and intellectual property.
 - Removal of non-tariff barriers such as dumping export quotas and standardization of products
 - Removal of inequalities in trade.
 - Acting congruently with international co-operations including International Monetary Fund and World Bank.
- Generalized system of preferences (GSP+) is a three year programme introduced in 2005 which provides the opportunity to export goods to the European Union without tariffs.

Competency Level 9.3 : Investigates structure and trends of the international trade in Sri Lanka.

Number of Periods : 05

Learning outcomes :

- Defines the export and import trade of Sri Lanka. .
- Describes the formation of export and import structure of Sri Lanka.
- Comparatively interprets the trends of the export and import structure of Sri Lanka.

Learning-teaching process:

Engagement

- Question the students regarding goods with a higher foreign exchange earnings and the goods with a higher foreign exchange payments.
- Conduct a discussion citing the following points.
 - Sri Lanka earn a higher amount of foreign exchange by selling apparel to the foreign market. (According to 2009 CBSL report)
 - Sri Lanka spend a higher amount of foreign exchange to purchase petroleum from the foreign market. (According to 2009 CBSL report)
 - In this manner Sri Lanka exports and imports a large amount of goods and services.
- Involve students in the activity giving suggested instructions for learning after dividing them into groups.

Proposed instruction for learning:

- Focus on the topic given of your group out of the following topics.
 - Import trade.
 - Export trade
- Conduct a group discussion to identify the topic given to you.
- List the components relevant to the topic.
- Show the relative contribution of these components as a percentage.
- Present the changes of the contribution of the relevant components and the structure during a particular period of time.
- Explain the factors that have influenced these changes.
- Prepare to present your findings to the class through graphs, tables and percentages.

Guideline to explain subject matter:

- Purchase of goods and services by a country from other countries in the world is import trade.
Ex: Purchase of motor cars by Sri Lanka from India
- Sale of goods and services by a country to other countries in the world is export trade.
Ex: Sri Lanka sells tea to USA.
- The import structure of Sri Lanka is as follows
 - Consumer goods
 - Intermediate goods
 - Investment goods
 - Unclassified export

(According to 2011 CBSL report)

- The export structure of Sri Lanka is as follows.
 - Agricultural exports
 - Industrial exports
 - Mineral exports
 - Unclassified exports

(According to 2009 CBSL report)
- The above export structure above can be presented as a percentage as follows
 - Agricultural exports 23.9%
 - Industrial export 74.9%
 - Mineral exports 1.3%

(According to 2009 CBSL report)
- Examples of exported / export oriented agricultural goods are as follows.
 - Tea, Rubber, Coconut, other agricultural exports.
- Examples of exported industrial goods are as follows
 - Food, beverages and tobacco
 - Textiles and Garments
 - Petroleum products
 - Rubber products
 - Ceramic products
 - Leather bags and footwear
 - Machinery and equipment
 - Diamonds and jewelry
 - Other industrial goods
- Examples of export oriented minerals are as follows
 - Gems
 - Other investment exports

- The above structure can be presented as a percentage
 - Consumer goods - 18.43%
 - Intermediate goods - 59.9%
 - Investment goods - 20.5%
 - Miscellaneous - 1.2%
- Examples of intermediate goods imported are as follows
 - Petroleum
 - Fertilizer
 - Chemicals
 - Textiles and Garments
- Examples of consumer goods imported are as follows
 - Rice, Sugar, Wheat, Milk powder
 - Personal motor cars
 - Electrical equipments
- Examples of intermediate goods imported are as follows
 - Petroleum
 - Fertilizer
 - Chemicals
 - Textiles and Garments
- Examples of investment goods imported are as follows
 - Machinery and equipment
 - Transport equipment
 - Building materials

- Changes in the import structure from 1977 to 2011 are as follows.

Import structure	1977	2011
Consumer goods	42%	18%
Intermediate goods	45%	60.6%
Investment goods	12%	21.1%
Others	1%	.3%
Intermediate goods	1977	2011
Crude oil	23%	8%
Other petroleum products	2%	16%
Clothes	3%	11%
Fertilizer	1%	2%
Papers	1%	2%
Other intermediate goods	15%	15%

(The above information has been presented according to the annual report of CBSL 2011. Give the necessary information to students, using the annual report of CBSL in the most recent year)

- The export structure of Sri Lanka is as follows.
 - Agricultural exports
 - Industrial exports
 - Mineral exports
 - Unclassified exports

(According to 2009 CBSL report)

- The above export structure above can be presented as a percentage as follows

- Agricultural exports 23.9%
- Industrial export 75.7%
- Mineral exports 0.3%

(According to 2011 CBSL report)

- Examples of export oriented agricultural goods are as follows.

- Tea, Rubber, Coconut, other agricultural exports.

- Examples of exported industrial goods are as follows

- Food, beverages and tobacco
- Textiles and Garments
- Petroleum products
- Rubber products
- Ceramic products
- Leather bags and footwear
- Machinery and equipment
- Diamonds and Jewellery
- Other industrial goods

- Examples of export oriented minerals are as follows

- Gems
- Other investment exports

- Changes in the export structure from 1977 to 2011 are as follows.

Export structure	1977	2009
Agricultural goods	79%	23.9%
Industrial goods	14%	75.7%
Other	7%	0.3%

- Exports of industrial goods are given in detail.

Industrial goods	1977	2011
Clothes and apparel	2%	39.7%
Petroleum products	9%	5.2%
Other industrial goods	3%	5.8%
Food, beverages and tobacco	-	3.3%
Diamonds and jewelry	-	5%
Rubber products	-	8.4%

- Examples of the reasons that gave rise to the above changes
 - Price fluctuations of export crops.
 - Fall in export volume
 - Severe uncertainty in the world market.
 - Various measures taken by the government to encourage exports.
 - Increase in global demand due to natural products.
 - High quality of Sri Lankan apparels and gaining of international confidence in them world wide.
 - Global economic recession

Competency Level 9.4 : Investigates economic impact of international trade using terms of trade

Number of Periods : 06

Learning outcomes :

- Define terms of trade
- Names and calculates the commodity , terms of trade.
- Describes the economic effects of terms of trade.
- Names and calculates the income terms of trade
- Describes the economic effects of the income terms of trade.
- Presents recent data regarding commodity terms of trade and income terms of trade of Sri Lanka using the latest CBSL annual report.

Guideline to explain the subject matter:

- The units of imported goods that can be bought from a unit of exported goods is known as terms of trade.
- There are two main parts of terms of trade
 1. Commodity terms of trade
 2. Income terms of trade
- The index prepared to measure the purchasing power or the import capacity of exports is known as commodity terms of trade.
- Commodity terms of trade can be calculated by dividing the export price index by import price index and multiplying it by 100.
- When the terms of trade improves it facilitates economic development.
- When the terms of trade depreciates it is harmful to economic development.
- Commodity terms of trade do not perfectly reflect the import purchasing power of a country.
- The index prepared to measure the import purchasing power of export revenue is known as income terms of trade.

- Income terms of trade can be calculated by multiplying commodity terms of trades in a country by its export volume index.

$$I = \frac{P_x \times Q_x}{P_m}$$

- I = income terms of trade
 - P_x = export price index
 - P_m = import price index
 - Q_x = export volume index
- Since, import of investment goods depends on income terms of trade, developing countries must have a high income terms of trade at an increasing rate.

Competency Level 9.5 : Prepares a structure of balance of payments based on the contents of balance of payments.

Number of periods : 06

Learning outcomes :

- Defines the concept of balance of payment
- Explains the components of BOP giving examples.
- Prepares a BOP table using hypothetical data
- Explains the inter-effects of the components of a BOP table

Learning - teaching process:

Engagement

- Inquire from the students about the sources of income of their homes and how income is spent.
- Conduct a discussion citing the following factors.
- A household receives income from the following sources
 - Wages of household
 - Income from land
 - Interest received from deposits
 - Income received from various business activities in addition to the job.
- The following are the ways in which income received by a household is spent to consume various goods and services.
 - To purchase food and clothes
 - For educational purposes
 - For transportation
 - For payments such as electricity bills, water bills and telephone bills
- The state of deficit or surplus can be found by comparing the income and the expenses of a household.
- Accordingly, by stating the income and expenditure of a country based on an accounting method the final result can be obtained.

- Group the students in an appropriate way and give instructions for the proposed learning and involve them in the activity.

Proposed instruction for learning:

- The following is some of the information related to the foreign trade of Sri Lanka. Pay attention to the information given to your group.

Group A

Item	Value (Rs. Million)
Food and beverages import	200
Tea export	100
Clothes and apparel export	500
Cloth import	300
Fertilizer import	400
Gems and Jewellery export	50
Crude oil import	200
Building material import	50
Rubber export	100
Petroleum product export	100
Coconut export	50

Group B

Item	Value (Rs. Million)
Income from aviation	500
Services to foreign ships	300
Other harbour facilities of SL	200
Service from international communication systems	1000
Foreign hotel and restaurant facilities	100
Sri Lanka hotel and restaurant facilities	100

Group C

Item	Value (Rs. Million)
Interest income paid to foreigners by SL	600
Wages sent to children by SL women who work in the Middle East	500
Money invested in a foreign business by a Sri Lankan	1300
Donations received by SL due to Tsunami devastation	100
Purchase of shares in Sri Lankan businesses by foreigners	200
Foreign donations/ aid received for NE development	300
Money donations sent to non-residents who live in other countries	100
Donations made by SL to other countries	300

- List the transactions from which Sri Lanka receives foreign exchange and calculate the total amount of foreign exchange received according to the information given to your group.
- Prepare a list of transactions that costs foreign exchange to Sri Lanka and calculate the total foreign exchange payments.
- Calculate the final balance comparing receipts and payments of foreign exchange calculated above.
- Creatively present your findings to the class.

Guidelines to explain the subject matter:

- The document that states a country's total transactions with the rest of the world as receipts and payments is known as balance of payment.
- This is also known as balanced table of payments since it reflects a double entry book keeping system.
- A BOP table consists of two main accounts.
 - Current account
 - Capital and financial account

Balance of Payment

Current account

Capital financial account

Trade account
(Good account)

services account

Income account

Current transfer ac-
count

Capital
transfer
account

Long term

short term

- Direct investment
- Private long term (Net)
- Government long term (Net)

- • Various investment (Net)
- Private short term (Net)
- Commercial bank assets (Net)
- Commercial bank liabilities (Net)
- Government short term (Net)

Export
received

Import
Payment

Received

Payment

Received

Payment

Official

Private

Balance value

Balance value

Balance value

Balance value

Bbalance value
of current
account

Balance value of
capital financial
account

Errors and omissions in
calculation of special drawing
rights

Total Balance

- Current a/c is again divided into four main accounts.
 - Trade account (Goods account)
 - Service account (Non-factor service account)
 - Income account (Factor service account)
 - Current transfers account (official and private transfer account)
- The account that records information about the exports and imports of a country with the rest of the world is known as goods account or trade account.
- The balance of this account is known as balance of trade and it may take a positive or a negative value.
- The account that records income and expenditure on non-factor services of a country with the rest of the world in international trade is known as the service account.
- The balance of this account can take a positive or negative value.
- The account that records income and expenditure on factor services of a country with the rest of the world in international trade is known as the income account.
- It is important to mention that wages remitted by housemaids from abroad are not included in this account.
- The balance between receipts and payments of this account may take a positive or negative value.
- The donations made by a country's government to another country's government due to international relations between countries are known as official transfers.
- The wages sent by expatriates of a country to his relatives or friends are considered as private transfers.
- Accordingly, current transfers are divided as official and private transfers.
- The sum of the four accounts above is the balance of the current account.
- It may take a positive or a negative value
- The capital account records capital transfers.
- The Financial account is divided as long-term and short-term.

- The Long term financial account consists of foreign direct investments (FDI), long term private (Net) and long term official (Net)
- The Short- term financial account consists of the following.
 - Various investment (Net)
 - Private short term (Net)
 - Commercial bank assets (Net)
 - Commercial bank liabilities (Net)
 - Government short term (Net)
- Errors and omissions in the calculation of special drawing rights (SDR) are adjusted and the overall balance of Bop can be prepared.
- The wages sent by expatriates of a country to his relatives or friends are considered as private transfers.
- Accordingly, current transfers are divided as official and private transfers.
- The sum of the four accounts above is the balance of the current account.
- It may take a positive or a negative value
- The capital account records capital transfers.

Competency Level 9.6 : Explains the influence of foreign transactions on the economy using BOP table

Number of Periods : 06

Learning outcomes :

- Explains recent trends of BOP from CBSL annual report
- Describes the trends of the terms of trade, current account balance and overall balance of BOP
- Presents proposals to minimize deficit appreciate surplus of these accounts.

Guidelines to explain the subject matter:

- A surplus or a deficit of the overall balance of BOP table is known as BOP imbalance.
 - Recent trends of SL BOP can be examined from CBSL annual report.
 - Examples of economic effects of a surplus of BOP are as follows.
 - Increase in foreign reserves
 - Increase in the time for which foreign reserves are sufficient for imports
 - Expansionary effect on the money supply
 - causing an inflation
 - Increase in the value of foreign exchange
 - Fall in the export competitiveness.
 - Examples of economic effects of a deficit of Bop are as follows.
 - A fall in foreign reserves
 - Concretionary effect on money supply
 - Depreciation of exchange rates
 - Implementation of protectionism
 - Increase in foreign debts.
 - Various measures can be taken to finance a Bop deficit
- Eg:
- Use of capital and financial a/c reserves to finance the current a/c deficit.
 - Long term actions are to be taken to finance overall balance deficit.
 - Import substitution
 - Export diversification

Competency Level 9.7 : Investigates the determination and impact of foreign exchange rate.

Number of Periods : 06

Learning outcomes :

- Defines foreign exchange market & exchange rates.
- Explains the exchange rates by classifying them
- Explains economic effects of the use of exchange rates
- Inquires how the fluctuations of exchange rates affect the Bop of a country.
- Explains how the currency of a country gets depreciated and appreciated using example.
- Explains how the exchange rates gets devalued and revalued.

Guidelines to explain the subject matter:

- The market where currencies of different countries are exchanged is the foreign exchange market.
- The ratio of which one unit of currency of a country is exchanged for a unit of another country's currency is exchange rate.
- The following exchange rates have been used in SL during different periods.
 - Fixed exchange rate
 - Floating exchange rate
 - Floating fixed exchange rate
- Foreign exchange can get devalued or overvalued
- Devaluation is decrease in the external value of a units of domestic currency or decrease in the estimate of domestic currency in terms of foreign currency.
- Overvaluation is the opposite process of devaluation
- Devaluation and over valuation is done under the fixed exchange rate system.

- Depreciation of exchange rates is a fall in the number of foreign currency units that should be paid to purchase a unit of devalued currency under a floating exchange rate or an increase in the number of domestic currency units that should be paid to purchase a unit of foreign currency.

Example

- Increase in the buying price of a dollar from Rs. 100/- to Rs. 150/- or a fall in the buying price of a Sri Lankan Rupee for US \$ 0.01 to 0.0067
- Increase in the value of the exchange rate is the opposite process of depreciation of exchange rate.

Example

- A fall in the buying price of a US \$ from 150 to Rs. 100 or a rise in the buying price of from US \$ 0.0067 to 0.01
- The Internal inflation rate of different countries considerably affects the exchange rates.
- The Nominal exchange rate is the measurement of change in the external value of the currency by expressing the rate of exchange of the domestic currency with different foreign currencies separately.
- The Real exchange rate is the nominal exchange rate adjusted for the changes in the price levels of two countries.
- The Nominal effective exchange rate is the exchange rate prepared giving weights after considering the relative quantity of trade between countries.
- Real effective exchange rate is the exchange rate prepared removing the rates of inflation from the effective exchange rate.
- A rise in real exchange rate also shows an appreciation of exchange rate.
- A rise in real exchange rate also shows an appreciation of exchange rate.
- The terms of trade and the current account of Bop improve by the devaluation of the exchange rate.

Competency Level 9.9 : Investigates the importance of economic organization for economic corporation.

Number of Periods : 06

Learning outcomes :

- Explains the objectives of economic integration
- Describes various situations of economic integration with examples
- Presents specific characteristics of different economic integrations
- Explain the trade agreements related to Sri Lanka with examples.

Guidelines to explain the subject matter:

- The process of exchange of goods and services and factors of production without tariffs or non tariff barriers between nations or different groups in a nation is called economic integration..
- The objectives of economic integration are as follows
 - Maintenance of a unitary price by removing price disparities among countries
 - Provision of goods at lower prices for consumers through increasing competition
 - Increase in GDP in countries through widening world trade.
 - Bargaining with multilateral trading partners
 - Preserving international competition in the process of globalization
 - Developing political relations among nations.

- Different stages of economic integrations are as follows
 - Preferential Trade Agreements (PTA)
 - Free trade Area.
 - Customs union (CU)
 - Common market (CM)
 - Economic and Financial union (EU & FM)
 - Full economic integration (FI)
- Different stages of economic integrations are as follows
 - Preferential Trade Agreements (PTA)
 - Customs union (CU)
 - Common market (CM)
 - Economic and Financial union (EU & FM)
 - Fully economic integration (FI)
- Preferential Trade Agreements (PTA) is an organization made by countries to exchange goods and services among member countries under less trade barriers that are usually used in trade among non-member countries.
 - European economic union
 - Indo - Afghanistan PTS
 - NAFTA (North America Free Trade Agreement)
- Free Trade Agreement (FTA) are organization made by countries to trade without barriers among member countries but to maintain trade barriers with non-member countries when each country is engaged in trade with them.

- Examples of FTA's are as follows
 - African Free Trade zone (AFTZ)
 - Asian - Pacific Free trade agreement (AFTA)
 - Central European Free Trade Agreement (CEFTA)
 - North American Free Trade Agreement (NAFTA)
- Customs unions are integration of some countries to maintain free trade among member countries and to maintain common barriers among non-member countries
- Examples of customs unions are as follows
 - Central American Common Market (CACM)
 - Caribbean Community (CAN)
 - North American Community (NAC)
- Common market is integration of countries to maintain free trade among member countries and the common policy in trade among non-member countries.
- Examples of common markets are as follows.
 - Caribbean Community (CAN)
 - Central American Common Market (CACM)
 - North American Community (NAC)
- Economic and monetary unions are integration of countries to maintain free trade among member countries, This is an integration with member countries and non member countries to follow a common policy on trade and free mobility of labour and capital among member countries.
- Examples of economic and Monetary unions are as follows
 - Central African economic and monetary unions
 - Western African economic and monetary unions
 - European Monetary and economic unions
- Full integration (FI) is integration of countries to maintain free trade among member countries and non-member countries of goods and services and factor of production and to maintain a unitary marketing policy, fiscal policy legislative, executive judiciary and political policy.

- Countries enter trade agreements as one step towards economic integration
 - Trade Agreements take two forms
 - Bilateral Free trade Agreements
 - Multilateral trade Agreements
 - Bilateral trade agreements are agreements created by two countries for trade and monetary activities
 - Examples of bilateral trade agreements are as follows
 - Indo - Lanka Free trade agreement
 - SL - Pakistan Free Trade Agreement
 - The Indo - Sri Lanka Free Trade Agreement was signed by SL and India on 28/12/1998 and its operation started on 31/03/2000.
 - The objectives of ISLFTA are as follows.
 - Growth of economic cooperation between two countries through maintenance of a friendly economic pattern
 - Imposition of reasonable conditions to make competition meaningful to develop trade between two countries.
 - Protection of mutual responsibility in trade activities.
 - Acceleration of economic development by removing barriers in trade in the zone.
 - The advantages of ISLFTA to SL are as follows
 - Access to a wider market
 - Decrease in the transport cost
 - Decrease in the prices of consumer goods in the domestic market
 - Advantages of free trade
 - Inflow of more foreign investments to Sri Lanka.
 - Ability to face foreign challenges strongly.
 - New Industrial products of India can be purchased at a low price

- In 1985 Bangladesh, Bhutan, India, Maldives, Nepal, Pakistan and Sri Lanka established the South Asian Association for regional Corporation or SARRC.
- In 1995 South Asian preferential trade agreement was established (SAFTA)
- In 2001 South Asian free trade association (SAFTA) was established to improve economic corporation and to develop trade among SARRC countries.
- The objectives of SAFTA are as follows.
 - Removal of trade barriers and facilitation of trade transactions across boundaries.
 - Free and fair trade in member countries after considering their economic levels and their economic development patterns and distribution of benefits of trade among them equally.
 - Creation of an effective mechanism to implement the agreement to appreciate its activities and to settle disputes among them.
 - Establishment of a regional cooperation programme to spread and increase the benefits of the agreement in future.
- The following six equipments are implemented under SAFTA
 - Free trade programme
 - Institutional programme
 - Counseling and dispute settlement mechanism
 - Protective measures
 - Other agreed equipments
- The issues that arose in SAFTA
 - Lack of political agreement in the zone
 - Production of similar goods by most member countries.
 - Administrative and political barriers
 - Existence of high tariff ratios among the countries in the zone

- NAFTA was signed by USA Canada and Mexico in 1993 and it started its operation on 1994 .01. 01
- The objectives of NAFTA are as follows.
 - Removal of tariff and non-tariff barriers
 - Removal of obstacles to investment mobility among member countries
 - Promotion of trade in the zone
 - Improvement of economic co-corporation among member countries.
- Goods and services trade in the entire North America was free while their prices declined and trade among them doubled due to NAFTA.
- Asia Pacific Economic Co-operation was started in 1993 by 18 countries in Asia Pacific region.
- The members of this organization are Japan, China, South Korea, Thailand, Indonesia, Philippine, Brunei, Papua New Guinea, Chilly, Australia, Canada, USA, Mexico and New Zealand.
- The main objectives of the operational plan according the second summit of APEC are as follows
 - Establishment of absolute free trade zone.
 - Regularization and relaxation of customs.
 - Free trade using computers technology.
 - Upliftment of the welfare of the poor.
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Competency Level 9.10 : Inquires about the international Monetary institutions

Number of Periods : 05

Learning outcomes :

- Names international monetary institutes
- Describes the functions of international monetary institutes
- Lists the services received by SL from international met... institutes.

Guidelines to explain the subject matters:

- The International Monetary fund was established in 1947 January with the aim of providing short term loans to finance the financial shortage in member countries.
- The head quarters of IMF is in Washington in USA and there were 28 member countries at the beginning and the present membership is 184 countries.
- The member countries have been issued fund quotas by IMF to obtain capital and the countries should provide one or few fund quotas to obtain the membership of IMF
- The number of fund quotas received by a member country depends upon the economic status and the contribution made by that country to international trade.
- The voting right and the amount of loan received by different countries depend upon the number of fund quotas of that country.
- By the end of 1947 the capital of IMF was US \$ 8 billion and the largest number of fund quotas had been obtained by USA.
- 25% of fund quotas of the member country should be paid in gold and the rest should be paid in local currency.
- When a country borrows from the IMF a member country should deposit local currency equivalent to this loan in local currency with them IMF provides this loan in currencies approved by IMF.
- The loans obtained from IMF should be paid in 3 to 5 years and it should be paid back in approved convertible currency.
- The objectives of IMF are as follows
 - To act cooperatively with international monetary issues and growth of international monetary cooperation through a permanent institute for counselling.
 - Assistance necessary for balanced growth and spread of international trade and to help maintain a high employment level and real income level
 - Stability in exchange rates.
 - To assist create a multilateral payment system for recurrent transactions and education

of limitations of exchange rates.

- To provide funds to consolidate the confidence of member countries and to provide opportunities to correct unfavourable balance in BOP
- To reduce BOP imbalances in member countries and to shorten the period of existence of these imbalances.
- The following types of loans are provided by IMF
 - Extended fund facilities
 - Structural adjustment facilities
 - External structural adjustment facilities
 - Compensatory and contingency financial facilities
 - Buffer stock financing facilities
 - Oil loan facilities
 - Systematic transformation facilities
- World Bank was established on 01 March 1947 after Bretton Woods conference held in July 1944 in Brettonwood in USA with the participation of 42 countries along with USA and Britain.
- World Bank was established as a result of a decision taken by UN monetary and financial summit to achieve objectives of renovation of war damaged Europe and to prevent such areas and to create an economic revival.
- The main objective of the World Bank is to provide assistance for long term development in member countries.
- There were 28 member countries in International Bank for reconstruction and development (IBRD) or World Bank and its present membership is 177 countries.
- The two affiliated institutions of the world bank are International Finance Corporation and International Development Association. These three institutions IFC, IDA and World Bank are known as World Bank Group.
- The objectives of the world bank are as follows
- Acceleration of economic development of member countries by providing investment facilities to produce.
- When foreign capital can not be obtained by member countries under convenient conditions creation of opportunities and facilities to encourage foreign private investments.
- To provide long term loans for effective production of member countries using funds of the world bank, their funds in addition to private investment
- To provide industrial and technical instruction to member countries

- Growth of production resource in member countries and balance growth of international trade through the encouragement of international investment.
- The services provided by the world bank to sl are as follows
 - Necessary foreign exchanges are provided as loans under concessional conditions.
 - Patronage to develop technology industrial knowledge and technical methods
 - Co-operation to attract foreign investments
 - Providing the assistance of the world bank specialists to plan necessary projects to accelerate development and to supervise them.

Competency Level 9.11 : Investigates the impact of globalization on developing countries.

Number of Periods : 06

Learning outcomes : ● Defines globalization.
● States the main characteristics of globalization.
● Describes driving forces of globalization.
● Presents pro and anti arguments of globalization.

Guidelines to explain subject matter:

- Integration of countries via the factors of foreign trade, foreign investments and foreign technology with world economy and opening of economies can be identified as globalization..
- Main elements of globalization are as below.
 - Creation of new markets
 - Creation of new equipment
 - Creation of new world institutions and organizations.
 - Creation of new laws and regulations.
- Through globalization interdependence of world economy get sharpen
- Globalization improves financial and trade flows
- Through globalization the production process will be internationalized.
- Globalization leads to international mobility of labour.
- Various principles of globalization as a historical process are as follows.
 - From 1870 to 1920 huge improvement in world trade.
 - After 1945 with the end of II world war huge improvement in trade flows.
 - New trend of globalization developed after 1980.
- Main characteristics of globalization are as follows
 - Huge interdependence.
 - Huge improvement in trade and financial flows
 - Internationalization of production process.
 - International mobility of labour
 - Economic cooperation among countries

- Driving forces of globalization are as follows.
 - Improving in the fields of transport
 - Improvement in technology
 - Deregulation of global financial markets
 - Change in comparative advantage among countries
 - Locating of various stage of production in various countries by multi national corporations
 - Removing of protectionist policies
 - Economic integrations
- Examples for advantages of globalization are as follows.
 - Increase in the capacity of world trade.
 - Increase in production and income.
 - Expansion of employment opportunities
 - Increase in foreign direct investments
 - Development of new technology
 - Various opportunities of consumption
 - Creating of quality products due to competitiveness in production
 - Efficiency in information flow
- Examples for disadvantages of globalization are as follows.
 - Widening of international income inequality.
 - Environmental problems.
 - Creation of threats to the sovereignty of domestic economic systems.
 - Destroying of cultural diversity.
 - Creation of economic crisis due to instability of financial markets.
 - Decline in domestic productive fields and loss of employment opportunities.
 - International terrorism.
 - Health problems.
- Depending on advantage and disadvantages of globalization there are pro and anti arguments of globalization can be seen.

Competency 10 : Shares the interest in contributing towards sustainable development by analyzing diversification of development comparatively.

Competency Level 10.1 : Analyses the factors affecting economic growth by evaluating the significance of economic growth.

Number of Periods : 06

- Learning outcomes**
- Defines economic growth.
 - Identifies the factors that determine economic growth.
 - Evaluates the importance of economic growth.
 - Presents the calculations of economic growth.
 - Shows how the economic structure changes, with economic growth.
 - Illustrates that there is a cost of economic growth using examples.

Guidelines to explain the subject matters:

- Continuous increase in real gross national production is called economic growth and it shows long term expansion of production potential.
- It illustrates quantitative changes in the production of goods and services in the economy.
- There is a clear difference between “Economic growth” and “Ratio of economic growth”
- Economic growth will also have a considerable influence, when determining the different levels of income inequality, poverty and unemployment.
- Factors which determine economic growth are as follows.
 - Increase in stock of resources/ factor endowment
 - Physical Capital
 - Human Capital
 - Natural Capital
 - Social Capital
 - Increase in productivity
 - Technology
 - Human Capital

- Economic Stability
 - Political Stability
 - Good governance
-
- There are different theories related to economic growth.
 - Economic growth is measurable.
 - Economic structure will change with economic growth.
Examples :- The Industrial sector is more important than the agricultural sector and the services sector will become the most important sector in the economy
 - Economic growth leads to an increase in income levels and it will lead to structural changes in production, according to the elasticity of income.
 - Advantages of economic growth are as follows.
 - Eliminates poverty when achieving high levels of living standards.
 - Increase in income
 - Businesses or Entrepreneurs can earn higher profits.
 - Increase in rate of employment
 - Increase in creditability in business.
 - Decrease in budget deficit
 - Costs of economic growth are as follows
 - Risk of inflation
 - Negative effects of increase in production and consumption on the environment.
 - Inequalities in distribution of income and wealth.
 - Regional disparities
 - Harmful to sustainable development
 - Environmental degradation.
 - Increase in global warming
 - Loss of international co-operation for the development of human welfare since the country is categorised as a high income country.

Competency Level 10.2 : Analyses the characteristics of the economic development process and its measures.

Number of Periods : 06

Learning outcomes : ● Defines economic development
● Names the characteristics of the economic development process
● Names and explains the indices of economic development.

Guidelines to explain the subject matters:

- Economic development is a changing process of the economy and increases the economic development of the life of the people and increases the quality of life.
- There is development in the social, political environmental and cultural sectors with the economic development.
- Economic development is a multi-dimensional process as it develops several sectors in the economy.
- The following conditions should be fulfilled to achieve Economic development together with Economic growth
 - Structural changes in the production process in the economy
 - Increase in productivity of production resources / Factors of production
 - Improvement in production techniques and in technology.
 - Modernization
- Benefits of economic development should flow from top to bottom and reduce poverty, unemployment, and income inequality in the economy.
- Individual indices are used to measure the progress of economic development of various sectors
 - Per capita G.D.P
 - Relative income distribution
 - Life expectancy
 - Literacy rate
 - Gini Coefficient
 - Labour force participation rate
- Composite indices are used to measure the economic development.
- To measure the total progress of economic development composite indices can be used.
- There are number of composite indices, such as ,
 - Physical quality of life index
 - Human Development index
 - Human poverty index

- Per-capita Gross Domestic production can be used to measure the amount of output per person from the total output of the country.
- Per-capita income does not illustrate every aspect of development. Therefore to measure economic development there should be a better dimension.
- To measure both economic and social development a better measure has introduced in recent years
- Physical Quality of Life index has designed established in recent years to measure development.
- The following indicators are included in the above Physical Quality of Life Index
 - Life expectancy at age of 1 year
 - Mortality rate (Infant mortality rate)
 - Literacy rate
- The Value of the Physical Quality of Life Index varies between 0 and 100, and according to that value the countries.
- The maximum value of PQLI is 100 and countries which have obtained closer to 100 has a high standard of living.
- Countries which have obtained value of PQLI closer to Zero has a lower standard of living.
- Human development index (HDI) introduced in 1990 by the development programme of United Nations.
- Three indicators are included in this index which were more advanced than PQLI (Physical quality life index)
 - Life expectancy at birth
 - Literacy rate of adults and ratio of school admission
 - Per capita income.
 - Income criteria calculated according to adjusted per capita income. (Per capita gross domestic production at purchasing power parity)

- According to the human development, countries are divided in to following categories.
 - Countries which have very high level of Human development. $HDI > 0.900$ and above.
 - The countries which have high level of human development.
 $0.800 < HDI < 0.899$
 - The countries which have intermidiate level of human development
 $0.500 < HDI < 0.799$
 - The countries which have lower level human development
 $0.000 < HDI < 0.499$
 - According to the Human Development Index Sri Lanka had 0.759 in 2009.
- (Educate the student on current informations about indicators used to measure development.)

Competency Level 10.3 : Evaluates sustainable development by analysing , the diversification of development comparatively.

Number of Periods : 06

Learning outcomes :

- Clarifies the classification of economies according to world bank classifications with examples
- Gives examples of the classification of economies according to other classifications
- Explains the international diversity of development and gives reasons for it.
- Defines the concept of sustainable development and evaluates the importance of it.

Guidelines to explain the subject matter:

- The development achieved through economic development, social development, conservation of the environment is known as sustainable development.
- Today countries enter into the sustainable development approach due to the following reasons.
 - Conservation of environment
 - To protect natural resources
- Utilization of environmental resources and natural disasters affect the sustainable development, examples of them are:
 - Unlimited consumption of natural resources
 - Increase in global warming
 - Melting of ice mountains
 - Climatic changes
 - Depletion of the ozone layer
 - Deforestation
 - Water pollution
- Different types of capital required for sustainable development are as follows.
 - Physical capital
 - Human capital
 - Natural capital
 - Social capital

- Implementing different programmes internationally and locally to minimize the depreciation of natural resources and harmful effects on the environment have been launched. Examples of them are;
 - Restriction on the use of Chlorofluoro Carbon that depletes the Ozone layer.
 - Limit the consumption of polythene.
 - Implementing laws to reduce the environmental damage caused by industries.
 - Controlling smoke and fumes emitted by mortar vehicles.
- The optimum level of development that is attainable by the present generation not depriving the opportunities of future generations to utilize the resources just like the present generation utilizes them is called sustainable development.
- Future development of a country, and the quality of the people's living standards are determined by the quality of the nature.
- The aim of the sustainable development concept is to maintain a balance between the Economic development, increase in natural resources and Environment.
- The importance of human development in sustainable development approach should be emphasized.
- To have a sustainable development there should be development in three pillars. Therefore these three sectors are called pillars of sustainable development. They are as follows.
 - Economic development
 - Social development
 - Protection of environment

Competency Level 10.4 : Examines the standard methods used in measuring inequality of income.

Number of Periods : 06

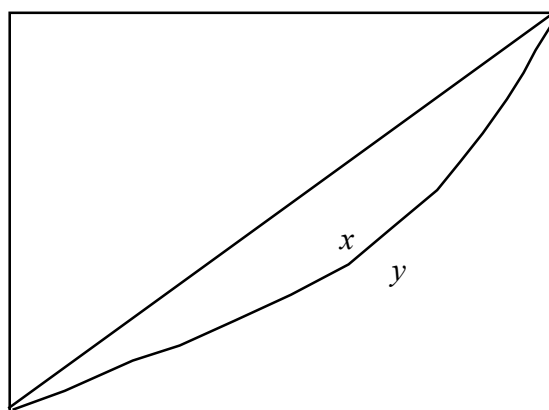
Learning outcomes :

- Defines inequality of distribution of income
- Presents the different forms of distribution of income
- Explains measurements used to measure distribution of income by using diagrams.

Guidelines to explain the subject matter:

- There is a class difference between low income class and high income class in any society which has market system.
- It is called inequality of income distribution.
- Minimizing inequality of income distribution is considered as equity.
- The distribution of aggregate production depends upon inequality of income distribution.
- There are two types of inequality of income distribution.
 - Relative distribution of income
 - Absolute distribution of income
- The way of total income has been distributed among the households is called the relative distribution of income.
- Inequality of income distribution can be determined according to the percentage of lowest income earners and the percentage of highest income earners out of the total number of households.
- Nature of the relative income distribution can be illustrated by Lorenz curve.
- Lorenz curve is illustrated as follows.

Income
distribution



Percentage of households

- The inequality of income distribution will be reduce a when the lorenz curve gets closer to the equal distribution curve.
- The inequality of income distribution will be increase when the lorenz curve is faraway from equal distribution curve.
- The amount of inequal distribution of income shown as lorenz curve can be measured by the Gini coefficient.
- Gini coefficient can be measured by using $X / X+Y$ formula.
- The inequality of income distribution increases when the Gini coefficient is closer to 1
- The inequality of income distribution decreases when the Gini coefficient is closer to 0 (zero)
- Gini coefficient is equal to 0 (zero) when there is no inequality of income
- Absolute distribution of income is to divide the income of a country in to different segments and calculate the percentages of population in each segment.
- According to the absolute income distribution people who are below poverty line are terms as poor people.

Competency Level 10.5 : Analyses poverty concept and illustrates how to measures poverty.

Number of Periods : 05

Learning Outcomes : ● Identifies the difference between absolute and relative poverty.
● Names the two dimensions of poverty
● Analyses the national (official poverty line) poverty line and international poverty line.
● Introduces the human poverty index

Guidelines to explain subject matter.

- Poverty can be defined under different concepts
- If sufficient income is not earned to buy food and other needs to get the calories intake, is explained as absolute poverty.
- Relative poverty is caused by inequal distribution of income.
- There are two sides of poverty
 - Income poverty
 - Consumption poverty
- If one cannot earn income which is sufficient to provide basic needs and minimum consumption level it is called basic poverty.
- Poverty is determined with the following criteria .
- Quality of life, individuals and adults literacy which shows standards of living and
- Living standards and the number of years attended the school
- According to the definition of the U.N.O. the situation that deprived people of choosing opportunities to live a happy, healthy life with freedom, self esteem, recognition in the society is termed as human poverty.
- The minimum expenditure needed to get food and non-food items in order to survive and to maintain a good behaviour is called national poverty line.
- If a daily income of a person is us \$ 1.08, it is called lower poverty line and if daily income per person income is us \$ 2.15, is called upper poverty line (This changes from time to time).
- The number of people earning their income below the poverty line is a simple measure of poverty.
- Human poverty index (HPI) is introduced by the United Nations Development Programme (U.N.D.P) in 1997

- There are two types of human poverty indices.
 - Human poverty index 1 (HPI -1)
 - Human poverty index 2 (HPI - 2)
- Human poverty index 1 focuses on measuring the poverty in developing countries.
- Human poverty index 2 focuses on measuring the poverty in developed countries.
- Criteria of the above two indices are different.
- Human poverty index measures the quantity of the absolute poverty.
(use current date relevant to poverty index)

Competency Level 10.6 : Evaluates the poverty in Sri Lanka and efforts taken to reduce poverty.

Number of Periods : 06

Learning outcomes :

- Defines poverty levels in Sri Lanka
- Gives reasons for regional disparities in poverty in Sri Lanka.
- Gives reasons for poverty in Sri Lanka.
- Suggests methods to propose to reduce the poverty in Sri Lanka.

Guidelines to explain the subject matter:

- Income/consumption poverty in Sri Lanka can be shown as follows.
- Estimation of per capita poverty line in Sri Lanka is based on the amount of money spent monthly on consumption of food containing 2000 calories per day by an adult and a young person (20-30 years)
- In addition to this the expenses on consumption of essential consumer goods which are non-food items (education, health and housing) are also considered.
- Official poverty line in Sri Lanka in year 2006/07 for a month is Rs 2233/-
- It will be Rs. 3070/- in January 2010.
- Poverty in Sri Lanka is gradually decreasing.
- Poverty in urban and rural sectors is also gradually decreasing.
- Poverty in rural and estate sectors is higher relatively than the poverty in urban areas.
- Reasons for poverty are as follows
 - Reasons for marginalize in rural areas amongst the provincial disparities.
 - Under development of physical and social infrastructure facilities.
 - Lack of resources and market facilities
 - Least opportunities for agriculture
 - Benefits of economic growth are not reaching to low income groups in rural areas.
- Action which can take to reduce the poverty in Sri Lanka are as follows
 - Expanding economic needs by

Competency Level 10.7 : Analyses the relationship between economic growth and poverty

Number of Periods : 06

Learning Outcomes :

- Explains the relationship between economic growth and poverty.
- Shows pro-poor growth programmes with examples.
- Shows pro-poor growth policies which are beneficial to poor people with examples.
- Suggests steps which can be bring in progress to the poor.

Guidelines to explain the subject matter:

- Process of economic growth which contribute efficiently to increase the income of poor people and which changes income distribution in favour of poor people is called favorable economic growth for poor people.
- The pro-poor growth can be measured in two ways.
 - Absolutely
 - Relatively
- When measuring growth abosolutley, it is expected to have a process that influence increase income of the poor absolutely.
- When measuring growth relatively it is expected to have a process that can increase the general income of the poor more than that of the non -poor.
- Examples of the government action taken recently to help the poor reach a favourable growth for they are in rural areas.
- Increase in Samurdhi payment by 50% as a solution to poverty.
- Operating Gamipubuduwa, Gamidiriya and Osu Gammana in order to start entrepreneurial development projects.
- Implementing Maganaguma, Gamanaguma, Gamipubudhuwa and starting rural electrical projects to develop rural public activities.
- Rajarata Navodhaya, Pubudamu Wellassa, Senkadagala Udanaya, North east development projects are implements as regional development projects.
- Giving Fertilizer subsidy, increasing the fixed price for paddy and starting Kirigamma.

- Constructing 300 industries around country to develop macro, small and medium scale industries, Lanka Puthra programme, Nanasal programme National Enterprises Bank and operating micro services.
- Establishing Science and Technology resource centers in rural areas, Uva wellassa university, Marine University to reduce the inequalities in higher education facilities.
- Economic policies and actions which can be practiced for the poor to achieves favourable growth can be identified favour.

Policy	Action
1. Macro economic policies	<ul style="list-style-type: none"> ● Controlling inflation ● Open free trade for selected areas
2. Sectoral policies	<ul style="list-style-type: none"> ● Agriculture reforms ● Development in human capital ● Expanding health facilities ● Empowering women
3. Regional development policies	<ul style="list-style-type: none"> ● Decentralizing the process of growth in areas where there are more poor people centralized.
4. Redistribution policies	<ul style="list-style-type: none"> ● Making policies which can create projects which poor people can earn income ● Preparing policies to start projects that enable poor people to earn more income and they have better access to empowerment opportunities .

Competency Level 10.8 : Discusses the distribution of population in Sri Lanka and its effects.

Number of Periods : 06

Learning Outcomes :

- Defines concept of population
- Defines population growth rate and identifies the factors affecting it.
- Analyses changes in population distribution and its effect on the economy.

Guidelines to explain the subject matter:

- Population growth takes place due to natural increase and net migration ratio
- Population is calculated using population growth rate.
- Population growth rate measures how the population has increased in the present year compared to the previous year increase in present year population comparing to the last year population
- Population growth rate can be measured in two ways.

$$\text{Population growth ratio} = \frac{\left\{ \begin{array}{l} \text{Natural} \\ \text{growth ratio} \end{array} + \begin{array}{l} \text{Net migration} \\ \text{ratio} \end{array} \right\}}{1000} \times 100$$

$$\text{Population growth ratio} = \frac{\text{Crude births} - \text{Crude deaths} + \text{Net migration}}{100}$$

- The difference between crude birth and crude death in a particular year is called natural growth.

$$\text{Natural growth} = \text{Crude birth} - \text{Crude deaths}$$

- Speed of the natural growth is measured by the natural growth rate.
- The natural growth rate is be calculated with the difference between crude birth and crude deaths dividing by midyear population.
- By dividing the difference between birth and deaths of a particular year by mid year population.

$$\text{National growth rate} = \frac{\text{No.of births} - \text{No.of deaths}}{\text{Mid year population}} \times 100$$

$$\text{National growth rate} = \frac{\text{birth rate} - \text{death rate}}{1000} \times 100$$

- When natural growth rate is positive there is an increase in population and when natural growth rate is negative there is decrease in population.
- The measure that measures the number of births in a country is known as crude birth rate. It can be calculated with the following

$$\text{Crude birth rate} = \frac{\text{No of Live births}}{\text{Mid year population}} \times 1000$$

- Crude death rate is calculated as the number of death per year per mid year population. It is calculated as follows

$$\text{Crude death rate} = \frac{\text{The no of deaths per year}}{\text{Mid year population}} \times 1000$$

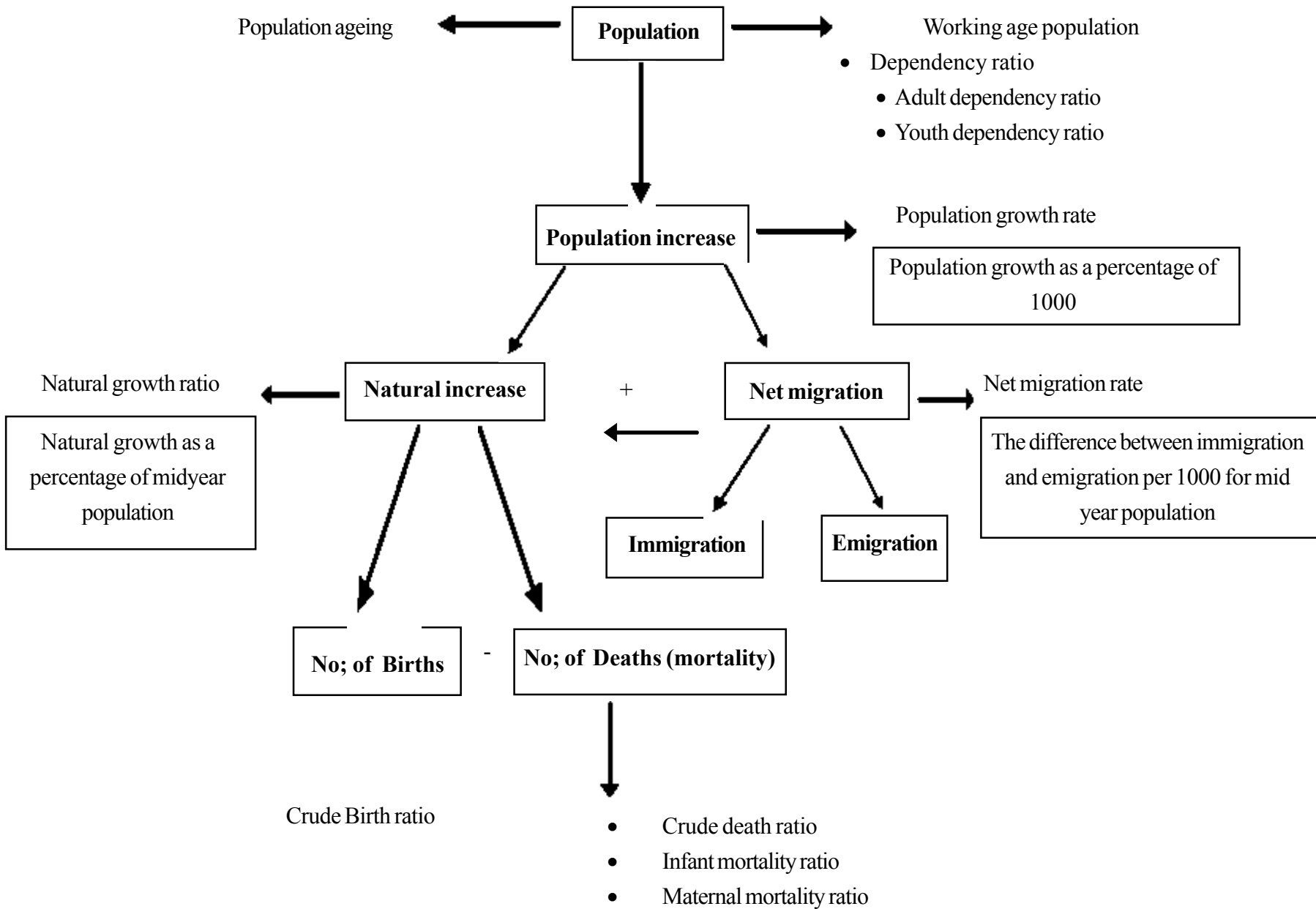
- Infant mortality rate can be calculated as follows.

$$\text{Infant mortality ratio} = \frac{\text{No of infant deaths under age of one year}}{\text{Total live births in the year}} \times 100$$

- Make population ratio compared to total population in a country is known as male-female sex ratio that shows the number men available for women per 1000.

$$\frac{\text{No of men in the country}}{\text{No of women in the country}} \times 1000$$

- Changes in the population of Sri Lanka during the last 25 years are as follows .
 - Significant decrease in population growth rate.
 - Net migration is an important factor that effects population growth in recent years.
 - Population increased by 5.2 millions from 1981 to 2007.
(1981=14.8 mill and 2007 =20.0 mill)
 - Differences can be seen in age structure.
 - Decrease in the percentage of child population.
 - Decrease in the working age of population.
 - Increase in aged population.
 - Decrease in infant mortality ratio.
 - Decrease in natural growth rate.



Competency Level 10.9 : Calculates Labour force in Sri Lanka

Number of Periods : 06

Learning Outcomes :

- Defines labour force
- Calculates Labour force and labour force participation rate using examples.
- Names and explains the factors which determine the labour force.

Guidelines to explain the subject matters:

- Total number of people who between minimum a maximum age limits and who are willing to after their labour during a particular period of time to produce goods and services which have economics value expecting a salary/wage or an economic gain are known as labour force.
- Persons who are not included in labour force are as follows.
 - Housewives
 - Full time students
 - Totally disabled
 - Voluntarily idle
- When calculating labour force in Sri Lanka only minimum age limit that is 10 years is considered but maximum age limit is not taken to account.
- All employed and unemployed people who are expecting a salary or an economic benefit(it one week before counting) are included in the lobour force in Sri Lanka.
- All the individuals who are above 10 years of the total population of Sri Lanka and who are able to work are considered to be in working age population
- Indicating labour force as a percentage of people who are able to work is labour force partivipation rate.
- Persons age 10 years and above from the total population of Sri Lanka are consider as working age population
- Indicating labour participation rate as a percentage of people who are able to work is labour force.

- Census and statistical department and CBSL supply information about the labour force of Sri Lanka.
- The factors which determine the labour force are as follows
 - Population size
 - International migration
 - Age structure
 - Male and female population
 - Civil status
 - Level of education
 - Social protection services
 - Urbanization
 - Health and neutrinos level
 - Social, cultural and religions concepts.

Competency Level 10.10: Explores quantitative and structural situations of employment and unemployment in Sri Lanka.

Number of Periods : 06

Learning Outcomes :

- Defines employment and explains its structure
- Distinguishes between full employment and under employment with examples.
- Defines unemployment and explains its structure.
- Gives reasons for unemployment in Sri Lanka
- Analyses consequences of unemployment using examples

A guidelines to explain the subject matters:

- Doing a productive economic activity, expecting wage or other economic benefit is called as employment.
- According to the definition of statistics and census department employment in Sri Lanka is doing an activity to earn income for the family or doing an activity for an hour or more before counting time includes to earn a wage or a profit or a payment
- Employment ratio is calculated as follows:

$\text{Employment ratio} = \frac{\text{Employment}}{\text{Labour force}} \times 100\%$
--

- If a country has a 97% employment ratio that is called as full employment
- When there is an economic growth there will be a full employment
- Living standards of the people will increase when there is full employment
- The anti-social activities will reduce when there is full employment
- Under employment can exist in different ways.
 - Reduce less marginal production even if work in full time.
 - Employed in a lower level job which does not match for the qualifications
 - Even though worked full time, receiving a low marginal productivity.

- lack of full time work or less working hour.
- If workers marginal production is 0 even through workers work full or part time it is called hidden unemployment
- Economic costs of under employment are as follows.
 - Decrease in Economic production
 - Wastage of labour
 - Unequal income distribution
 - Decrease in labour productivity
 - Creation of poverty due to decrease in income of works.
 - Arising anti social activities.
- There are different types of unemployment
- Unemployment can be calculated as follows.

$$\text{Unemployment ratio} = \frac{\text{Un employed pupulation}}{\text{Labour force}} \times 100$$

- Examples are of different -type of unemployment in Sri Lanka are given below.
 - Unemployment is decreasing in recent years.
 - Unemployment rate is high among the educated youth
 - Comparatively woman unemployment rate is high- rate of unemployment of women is relatively high.
 - Unemployment rate in rural sectors is relatively high
- Examples of consequences of unemployment are as follows.
 - Loss of optimum level of production that the society achieves.
 - Loss of income due to the loss of jobs will leads to increase in poverty.
 - Increase in external migration.
 - Increase in government expenses on social welfare
 - Rising political and social unrest.

- Examples of actions which can be taken to reduce the unemployment in sri lanka are as follows.
 - Achieving high economic growth
 - Increasing infrastructure facilities
 - Expanding industrial base
 - Establishing small scale industries in rural areas.
 - Providing professional training
 - Increase in foreign employment
 - Expanding the needs for self-employment.

Competency - 11 : Evaluates performance of Sri Lanka economy since independent.

Competency Level 11.1 : Inquires into the sectoral composition of Gross Domestic Product and employment in Sri Lanka.

Number of periods : 06

- Learning outcomes**
- Compares the contribution of public sector and private sector towards Sri Lanka's Gross Domestic Product
 - Examines the recent changes in Sri Lanka's Gross Domestic Product and the reasons for these changes
 - Explains the sectoral composition of employment in Sri Lanka
 - Compares the contribution of the public sector and the private sector towards employment in Sri Lanka
 - Examines the recent changes in Sri Lanka's employment and the reasons for these changes

Guidelines to explain subject matter:

- Mentions the fact that Sri Lanka's Gross Domestic Product is categorized into 13 sectors by Census and Statistics Department
- These sectors have been formed mainly following the fields of agriculture, industry and services sectors
- The sectoral contribution of the Gross Domestic Product comprises the fields of agriculture, industry and services
- After independence, during different time periods sectoral contribution shows gradual changes. Examples are as follows.
- Sectoral contribution of employment shows the proportions of each sector; agriculture, industry and services.

	1950	1970	1980	2000	2009
Agricultural sector	46.3%	28.3%	27.6%	19.9%	12.6%
Industrial sector	16.9%	23.8%	29.6%	27.3%	29.7%
Services sector	36.9%	47.9%	42.8%	52.8%	57.7%

- The amount by which the country's labour force consists of agricultural, industrial and services sector is shown by sectoral composition of employment.

- Examples of sectoral composition of employment after independence are as follows.

	1953	1977	1996	2008
Employment in the agricultural sector	53%	46%	38%	32.7%
Employment in the industrial sector	13%	14%	22%	26.3%
Employment in the services sector	34%	40%	40%	41%

- With the expansion of industrial and services sectors, the contribution of labour force towards these sectors also changes.
- Following economic growth and with increased income the importance of the agricultural sector moved towards the industrial and services sector.
- When a country is developed more structural changes can be seen in industrial and services sector than in the agricultural sector.
- The contribution of public and private sectors also has an affect in this regard.

Competency level 11.2 : Analyses the pattern of economic growth since independence in Sri Lanka.

Number of periods : 06

Learning outcomes :

- Explains the composition of total resources in Sri Lanka
- Explains the fields of resource utilization
- Describes the main saving sources within Sri Lanka
- Examines with examples the most important time periods relating to economic growth after independence in Sri Lanka

Guidelines to explain subject matter:

- Total resource in Sri Lanka comprises with stock of the country is constituted by Gross Domestic Product and with imports of goods and services
- After independence, the total resources of Sri Lanka have changed during different time following the changes in Gross Domestic Product and import structure. Examples are as follows.

	2005	2006	2009
Gross Domestic Product	64.3%	70.9%	78.2%
Imports of goods and services	35.7%	29.1%	21.8%

- Economic policies and new strategies were used to increase the Gross Domestic Product and then to increase the total amount of resources
- Sri Lanka's total resource utilization comprises consumption, investment and exports of goods and services
- After independence, during different time intervals the changes in total resource utilization are as follows.

	2005	2006	2009
Consumption	58%	58.8%	64.1%
Investment	20%	37.5%	19.2%
Exports of goods and services	22%	21.3%	16.7%

- Sri Lanka's national savings constitute domestic and foreign savings.
- Where domestic savings constitute public and private savings.
- Foreign savings constitute net foreign factor income and net foreign private transfers.

- The following examples give information relating to savings in Sri Lanka

	2001	2006	2009
Domestic savings	15.8%	17.3%	18%
Foreign savings	4.5%	6.1%	5.9%
National savings	20.3%	23.4%	23.9%

- To improve a country's national savings the net foreign private transfers should improve

- Improving domestic savings and foreign savings leads to increase investments which contributes greatly to economic growth

- After independence most important periods related to economic growth can be shown in two periods as follows

- The period of 1948 to 1977

- The period after 1977

- During the period of 1948 to 1977 the government has contributed more towards economic growth where it was a state dominated economy

- Economic policies followed during this period of 1948 to 1977 in Sri Lanka towards economic growth can be summarized as follows.

- From 1948 to 1959 – Colonial free economic policy

- From 1960 to 1977 – Inward-looking economic policy (Import substitution and welfare economic policy)

- In 1977 outward-looking economic policy (open economic policy) was introduced by replacing inward-looking economic policy (closed economic policy) prevailed until that

- Within outward-looking economic policy government's role was limited and limitations existed with foreign trade also omitted

Competency level 11.3 : Investigates the issues related to the agricultural sector in Sri Lanka

Number of periods : 04

Learning outcomes :

- Explains the importance of agricultural sector contribution towards economic development process
- Explains with examples the difference between domestic agriculture and plantation agriculture
- Lists out agro based industries
- Describes overall performance and trends in agricultural sector
- Describes differentials and problems in domestic and plantation agriculture
- Proposes solutions for problems exist within domestic and plantation agriculture

Guidelines to explain subject matter:

- Before 1977 agricultural sector was dominated in Sri Lanka
- Half of the national production was supported by agriculture
- Before 1977 within state dominated economic policy more were engaged in paddy farming and rural sector food crops farming
- Domestic agricultural sector contribution towards Gross Domestic Product declined gradually

Example:- In 1950 agricultural sector contribution towards Gross Domestic Product remained at 46.3% and it has decreased up to 12.6% in 2009

- Today large contribution of agricultural sector is consists with other crops including vegetables and fruits
- Second and third place are owned by paddy and plantation crops in order
- Examples for problems relating to domestic agriculture are as follows
 - Importing of agricultural crops create problems in domestic agriculture
 - Increase in prices of agricultural inputs
 - Problems like weak water management and lack of high quality seeds
 - Insect problems
 - Demarcation of lands and problems in tenant cultivation
 - Problems with marketing
 - Damages to pre and post harvest
 - Using of more lands for plantation crops

- Examples related to policy strategies taken in recent to improve domestic agricultural sector are as follows
 - Act to improve skills used in agriculture
 - Empower private entrepreneurs
 - Improve food processing technology
 - Improve cultivation of fruits and flowers
 - Improve domestic milk production
 - Spread the knowledge of information technology relating to agriculture at rural level
 - Protecting of resources
- Examples relating to steps taken recently to improve plantation sector are as follows
 - Making of a national plan for the development of plantation sector
 - Establish an active fund for the development of plantation crops of tea, rubber and coconut
 - Providing of fertilizer subsidy
- Examples for agro based industries are as follows
 - Coconut related industries
 - Coconut oil production
 - Copra production
 - Coir related products
 - Milk related industries
 - Yogurt production
 - Ice cream production
 - Curd production
 - Rubber related industries
 - Tire production
 - Metres production
 - Sheet rubber production

Competency level 11.4 : Investigate the issues related to the industrial sector in Sri Lanka

Number of periods : 08

Learning Outcomes :

- Describes overall performance and trends in industrial sector
- Examines with examples the importance of small and micro entrepreneurs work towards industrial sector development in Sri Lanka

Guidelines to explain subject matter:

- Following sectoral contribution of Gross Domestic Product in Sri Lanka the changes in industrial sector can be highlighted by using three different time periods

- Following contribution to Gross Domestic Product

Time period	Industrial sector
1. 1950-1970	20%-24%
2. 1980-2000	30%-27%
3. 2000-2008	30%-29%

- Therefore industrial sector contribution is 30% in gross terms
- Following sectoral contribution of Gross Domestic Product in Sri Lanka, industrial sector is categorized into four sub sectors
 - Mining and quarrying
 - Manufacturing
 - Electricity, Gas and water
 - Constructions
- More than 50% of industrial sector in Sri Lanka includes production industries. By following international standardization of production industries the industries which are in head can be list out in this way
 - Textiles, garments and leather products
 - Food and drinks production
 - Plastic, chemicals, crude oil and rubber products
 - Non metallic and processed metal products

- Within overall performance in industrial sector during different time periods different industrial policies were used and are used to develop industrial sector

Examples:

- Encourage import substitution industries
 - Export oriented industries
 - Improve small and medium scale industries
- Examples for steps taken by government towards industrial sector development are as follows
- Broaden the ways of entering into global market
 - Provide public financial assistance to the private sector for the usage of advanced technology
 - Establish local industrialization programmes which evolved from private and public sector goal orientation
- The objectives of 2006-2016 ten year industrial development plan in Sri Lanka are as follows
- Establish competitive firms to achieve a higher productivity in Sri Lanka
 - Establish local industries based on new findings at national level
 - Promote micro industries started at very small scale
 - Development of infrastructure by government to improve competitiveness among firms
 - Based on territory promote industrial clusters and industrial exports
 - Within foreign policy promote direct investments with cooperating among all countries
- Micro entrepreneurs are the entrepreneurs who use family labour and who employs a small amount of capital for a very small business
- The contribution of micro entrepreneurs are very important for the development of industrial sector in Sri Lanka
- Steps have taken to provide necessary public financial assistance and bank loans by acknowledging micro entrepreneurs at local level

Competency level 11.5 : Investigates the issues related to the service sector in Sri Lanka

Number of periods : 08

Learning Outcomes :

- Shows the importance of services sector contribution towards economic development process
- Describes structure and trends related to the services sector
- Describes with examples how the development of infrastructure affects services sector growth and structural changes
- Shows the importance of private sector contribution towards infrastructure development

Guidelines to explain subject matter:

- Relative to other sectors, service sector contribution towards economic development process shows a progress
- Service sector contribution which remained at 34% in 1950 has grown up to 46% in 1977 and further grown up to 50% during 1991-2000 decade and recorded a value of 57.7% in 2009.
- Service sector is expanding further within economy
- Following shows the importance of expanding the services sector
 - When a country is moving towards a fast economic growth the elasticity of demand for services will take a value of greater than one which would lead to services sector progress
 - Service sector expansion is important for a small country like Sri Lanka, as the natural resources required for services remain at a very low level comparing to other sectors.
 - As a result of protecting natural capital included in the concept of sustainable development the expansion of services sector takes place within globalization process which will lead to achieve high benefits
 - Services sector records a high productivity relative to agricultural and industrial sectors
 - It is important in generating income sources for increasing population
 - As the most efficient sector, the contribution of services sector is important to generate assets on agricultural and industrial sector
 - Services sector helps in expanding choices of public by coordinating the fields of production, distribution and consumption

- Service sector contributes in reducing transaction costs
- The existence of an efficient economic infrastructure system and a strong regulatory framework is a pre need to reach a high level of economic growth and economic development
- Examples for infrastructure oriented services are the transportation services, telecommunication services, water providing services and the energy services
- To improve these services foreign aids and investments are needed
- Government has taken steps to increase investments related to develop infrastructure in both public and private sector
- Colombo-Mathara express way is an example

Government's ten years development policy

- Government's ten years development policy framework plan (2006-2016) largely emphasize the importance of infrastructure towards fast economic development
- Steps have taken to develop infrastructure by starting many projects such as "Randora" national infrastructure concept
- Examples for facilities achieved under "Randora" national infrastructure development approach are as follows.

- Weerawila air port
- Hambantota port complex
- Hambantota administration complex
- Sothern transport development project
- Norechchole thermal power plant
- Upper kothmale hydro power plant
- Kerawalapitiya coal power plant
- Development of great Dabulle
- Northern highway
- Jaffna water project

●To provide infrastructure government takes the help of private sector in many different ways. Examples are as follows

- Building, operating and transferring (BOT method)
- Building, owning and operating (BOO method)
- Building, owning, operating and transferring (BOOT method)

Competency level 11.6 : Investigates contemporary economic events

Number of periods : 06

Learning outcomes :

- Examines with examples the economic effects of contemporary domestic economic events
- Examines with examples the economic effects of contemporary global economic events

Guidelines to explain subject matter:

- The contemporary social, political, economic and cultural changes takes place domestically and globally affects a country's economy
- These contemporary economic events are mainly categorized as domestic and global
- As an example for domestic contemporary economic event the tsunami disaster can be shown
- Examples for global contemporary economic events are as follows
 - International financial crisis
 - Introduction of millennium development goals
- Domestic contemporary economic events affect Sri Lankan economy in favourable and unfavourable way and it can be explained with an example below
 - Tsunami disaster affected development of Sri Lankan economy in an unfavourable way by destroying of infrastructure, industries, human lives and property in coastal areas
- Global contemporary economic events affect Sri Lankan economy in favourable and unfavourable way and it can be explained with an example below
 - Increase in prices of crude oil in foreign market affected Sri Lankan economy in an unfavourable way by increasing prices here

(By taking contemporary economic events as examples discuss with students how these can be affected to Sri Lankan economy)

School Based Assessment

Introduction- School Based Assessment

Learning –Teaching and Evaluation are three major components of the process of Education. It is a fact that teachers should know that evaluation is used to assess the progress of learning – teaching process. Moreover, teachers should know that these components influence mutually and develop each other .According to formative assessment (continuous assessment) fundamentals; it should be done while teaching or it is an ongoing process. Formative assessment can be done at the beginning, in the middle, at the end and at any instance of the learning teaching process. Teachers who expect to assess the progress of learning of the students should use an organized plan. School Based Assessment (SBA) process is not a mere examination method or a testing method. This programme is known as the method of intervening to develop learning in students and teaching of teachers. Furthermore, this process can be used to maximize the student’s capacities by identifying their strengths and weaknesses closely.

When implementing SBA programmes, students are directed to exploratory process through Learning Teaching activities and it is expected that teachers should be with the students facilitating, directing and observing the task they are engaged in.

At this juncture students should be assessed continuously and the teacher should confirm whether the skills of the students get developed up to expected level by assessing continuously. Learning teaching process should not only provide proper experiences to the students but also check whether the students have acquired them properly. For this, to happen proper guiding should be given.

Teachers who are engaged in evaluation (assessment) would be able to supply guidance in two ways. They are commonly known as feed-back and feed- forward. Teacher’s role should be providing Feedback to avoid learning difficulties when the students’ weaknesses and inabilities are revealed and provide feed-forward when the abilities and the strengths are identified, to develop such strong skills of the students.

Student should be able to identify what objectives have achieved to which level, leads to Success of the Learning Teaching process. Teachers are expected to judge the competency levels students have reached through evaluation and they should communicate information about student progress to parents and other relevant sectors. The best method that can be used to assess is the SBA that provides the opportunity to assess student continuously.

Teachers who have got the above objective in mind will use effective learning, Teaching, evaluation methods to make the Teaching process and learning process effective. Following are the types of evaluation tools student and, teachers can use. These types were introduced to teachers by the Department of Examination and National Institute of Education with the new reforms. Therefore, we expect that the teachers in the system know about them well

Types of assessment tools:

- | | |
|------------------------------|--------------------------|
| 01. Assignments | 02. Projects |
| 03. Survey | 04. Exploration |
| 05. Observation | 06. Exhibitions |
| 07. Field trips | 08. Short written |
| 09. Structured essays | 10. Open book test |
| 11. Creative activities | 12. Listening Tests |
| 13. Practical work | 14. Speech |
| 15. Self creation | 16. Group work |
| 17. Concept maps | 18. Double entry journal |
| 19. Wall papers | 20. Quizzes |
| 21. Question and answer book | 22. Debates |
| 23. Panel discussions | 24. Seminars |
| 25. Impromptus speeches | 26. Role-plays |

Teachers are not expected to use above mentioned activities for all the units and for all the subjects. Teachers should be able to pick and choose the suitable type for the relevant units and for the relevant subjects to assess the progress of the students appropriately. The types of assessment tools are mentioned in Teacher's Instructional Manuals.

If the teachers try to avoid administering the relevant assessment tools in their classes there will be lapses in exhibiting the growth of academic abilities, affective factors and psycho- motor skills in the students

Learning-Teaching Evaluation Plans

(1) Events of evaluation :First terms, plan 01

(2) Competency levels

cover : 6.1,. 6.2, 6.3 and 6.4

(3) Subject content related

to the plan : • General price level
• Price index
• Inflation
• Disinflation
• Deflation
• Cause of inflation
• Impact of inflation

(4) Nature of the plan : Group activities

(5) Objective of the plan :

- Collects information through exploration
- Presents information through tables and graphs.
- Investigates trends of general price levels in Sri Lanka
- Presents difference among Inflation, Disinflation and Deflation
- Inquires causes of inflation.
- Explains the difference in production cost and it's related concepts.
- Examines the nature of Inflation in Sri Lanka.
- Inquires about the impact of inflation.

(6) Instructions to implement the plan

Instructions to the Teacher : • Inform the students at the beginning of competency level6.1 that they should participate in a debate at the end of competency leve6.4

- Inform students about the evaluation criteria.
- Prepare topics according subject contents

Examples

- The behaviour of general price level in Sri Lanka.
- The Cause and impact of inflation

- Divide the students in the class into groups at the end of competency level 6.4 .
- Give the topics randomly and inform them to prepare the assignment
- Inform the student that the assignment should be creative.

- Instructions to students :
- Choose a formal organization in the area with the agreement of all the members in your group.
 - Engage in the group activity following the teacher's instructions.
 - Collect accurate data regarding the institute relevant to the fields named by the teacher.
 - Compare the collected information with the theoretical subject matter you had learnt.
 - Get every member of the group to participate in the process of data collection and preparation of the report
 - Always work with the full co-operation in the group.
 - Submit the report to the teacher on the date he has announced

- (7) Evaluation criteria :**
- Perfect ness fullness(including all the relevant information to the report)
 - Co-operation(working as a group in full co-operation)
 - Comparing the information collected with the theories
 - Following teacher instructions and finalizing during the scheduled time.
 - Creativity of the report.

- (8)Marks range**
- Very good 04
 - Good 03
 - Satisfactory 02
 - Should develop 01

Learning-Teaching Evaluation Plans

(1) Events of evaluation :First terms, plan02

(2) Competency levels

covers : 8.1, 8.2, 8.3, 8.4 and 8.5

(3) Subject content related

to the plan :

- Failure of the market system
- Externalities
- The role of the government in a market economy.
- Fiscal policy

(4) Nature of the plan : Field visit

(5) Objective of the plan :

- Observe information creatively and rationally.
- Work as a term
- Presents reasons rationally for the failure of the market system
- Inquires about the causes of inflation.
- Explains the difference production cost and it's related concepts.
- Examines the effects of externalities for the failure of the market system.
- Inquires about the role of the government in a market economy.

(6) Instructions for the implementation of the plan

Instructions to Teacher :

- Inform the students at the beginning of competency level8.1 that they should participate in a field visit at the end of competency leve6.4
- Inform students about the evaluation criteria.
- Instructions to carry out field visit

Examples

- A Farm
- A Quarry
- Give the topics randomly and ask them to prepare the assignment
- Inform the student that the assignment should be creative.

- Instructions to students :
- Choose a formal organization in the area with the agreement of all the members in your group.
 - Engage in the group activity following the teacher's instructions.
 - Collect accurate data regarding the institute relevant to the fields named by the teacher.
 - Compare the collected information with the theoretical subject matter that has been.
 - Get every member of the group to participate in the process of data collection and preparing the report
 - Always work with full co-operation of the group.
 - Submit the report to the teacher on the date he has announced

- (7) Evaluation criteria :**
- Perfect ness(including all the relevant information to the report)
 - co-operation(working as a group in full co-operation)
 - Comparing the information collected with the theories
 - Follow teacher instructions and finalize during the scheduled time.
 - Creativity of the report.

- (8)Marks range**
- Very good 04
 - Good 03
 - Satisfactory 02
 - Should develop 01

Learning-Teaching Evaluation Plans

(1) Events of evaluation : Second terms, plan 03

(2) Competency levels

covers : 9.1, 9.2, 9.3, 9.4, 9.5 and 9.6

(3) Subject content related

to the plan :

- The reasonable factors for international trade
- The Gains of international trade
- The Impact on the balance of payment

(4) Nature of the plan :Debate

(5) Objective of the plan :

- Presents facts creativity and rationally.
- Developing the speaking ability.
- Presents the reasonable factors for international trade
- Presents the gains of international trade.
- Analyzes the Impact on the balance of payment for a economy

(6) Instructions for the implementation the plan

Instructions to Teacher :

- Inform the students at the beginning of competency level 9.1 that they should participate in a debate at the end of competency level 9.6
- Divide the students in the class into two groups.
- Give the following topic to the groups at the beginning of competency level 9.1 and inform them to prepare for a debate
 - Contribution to the international trade the is useful for an economy
 - Contribution to the international trade the is useless for an economy
- At the end of each competency level, instruct the student to relate the subject relevant to it to the debate
- Inform the student that the debate should be held through two specific periods. Also inform them about the evaluation criteria.
- Give markets to students on the basis of the relative criteria while the debate is going on.

- Instructions to students**
- Do the activities according to the instructions and guidance given by the teacher.
 - Collect information related to your topic.
 - Takes decisions on appointing the group leader, time given to each member, number of opportunities etc, after discussing with the teacher.
 - Work as a team to win.
 - Be conscious about the method of giving marks.

- (7) Evaluation criteria :**
- Presenting facts related to the topic and presenting the facts in an organized way.
 - Presenting ideas creatively and rationally.
 - Appropriate body movement and time management.
 - Breaking the arguments of the opposite team.
 - Working as a team and acting with enthusiasm.

- (8) Marks range**
- | | |
|------------------|----|
| • Very good | 04 |
| • Good | 03 |
| • Satisfactory | 02 |
| • Should develop | 01 |

Learning-Teaching Evaluation Plans

(1) Events of evaluation Second terms, plan 04

(2) Competency levels

covers : 9.7, 9.8, 9.9, 9.10, 9.11 and 10.1

(3) Subject content related

to the plan :

- Foreign exchange market
- Foreign exchange rates
- Money devaluation and evaluation.
- Currency deficient and appreciation
- Foreign investment
- Foreign assets
- Economic Integrations
- Trade Agreements
- International Financial institutions
- Globalization
- Economic growth

(4) Nature of the plan : Creating puzzles

(5) Objective of the plan :

- Constructs questions which have specific answers.
- Works as a team.
- Explains the different foreign exchange rates
- Explains money devaluation and evaluation.
- Explains the way of foreign investment
- Knows about the Economic Integration and Trade Agreements
- Presents examples of the International Financial institutions
- Explains the way of globalization
- Explains economic growth

(6) Instructions for the implementation of the plan

Instructions to the teacher :

- Inform the students at the beginning of competency level 9.6 that they should create a puzzle at the end of competency level 10.1
- Inform students about the evaluation criteria.
- Divide students in to four groups.
- Distribute the four topics, Simple economy equilibrium, Change in simple economy equilibrium, Closed economy equilibrium and Open economy equilibrium.

- Tell each group to create a cross word puzzle on the relevant topic according to the following conditions.
 - There should be 10 words down and 10 words across.
 - Can prepare the square net using the discretion.
 - Puzzle terms should be directly related to the topic assigned to the group.
- Examine the puzzle terms and the puzzles of all the groups one week before the puzzles are submitted.
- Get each group to present their puzzles on a specified date (through two periods)
- Get the other groups to complete the puzzle.(Hold it as a competition.)
- Give marks using evaluation criteria to each group which presents the puzzle.

- Instructions to students :**
- Do the activities according to the instructions and guidance given by the teacher.
 - All the students of the group should create at least one term of the puzzle.
 - Show them to the teacher the on the date informed by the teacher and do the necessary adjustments.
 - Construct the puzzle creatively.

- (7) Evaluation criteria :**
- Answers of the puzzle should be related to the topic.
 - The puzzle should be constructed in order to achieve the objectives.
 - Follow the teacher's instructions and complete the activity within the given period.
 - Include the specified number of terms.
 - Creativity.

- (8)Marks range**
- Very good 04
 - Good 03
 - Satisfactory 02
 - Should develop 01

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