

EASTERN UNIVERSITY, SRI LANKA.

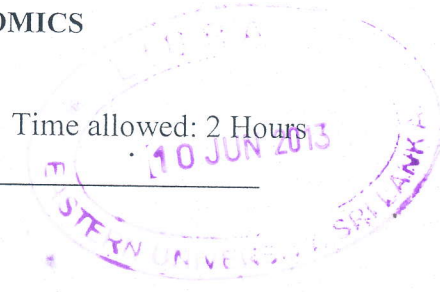
FIRST YEAR SECOND SEMESTER EXAMINATION IN AGRICULTURE 2012

AEC: 1201 INTRODUCTORY MACRO ECONOMICS

REPEAT EXAMINATION

Answer ALL questions

Time allowed: 2 Hours



1. a. Briefly explain the importance of Macroeconomics.
 - b. Graphically illustrate the Business Cycle.
 - c. Suppose planned consumption equals $50 + 0.80Y_d$; $I = 80$; and if there is no government sector;
 - i. Derive an equation for the savings function.
 - ii. Find the equilibrium level of income.
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2. a. Explain and differentiate Nominal GDP and Real GDP
 - b. Assume that there are only two goods produced in an economy. Using the following data calculate the Real and Nominal GDP for 1990 and 2008. (Assumption: Take 1990 as the base year).

Goods produced	1990		2008	
	Quantity	Price (Rs.)	Quantity	Price (Rs.)
Good X	20	20	25	35
Good Y	40	18	55	30

- c. Write the consumption function and explain the variables in it.

3. Write **SHORT NOTES** on the following.
 - a. Fiscal Policy
 - b. Investment Expenditure
 - c. Budget Surplus and Budget Deficit

 4. a. Explain and differentiate Direct and Indirect taxes

 - b. What is Inflation? Differentiate Inflationary Gap and Deflationary Gap.
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