

EASTERN UNIVERSITY SRI LANKA
FACULTY OF COMMERCE AND MANAGEMENT
SECOND YEAR FIRST SEMESTER EXAMINATION IN BBA/BCOM (2017/18)
PROPER / REPEAT (July 2019)
ECN 2023 Macroeconomics

Answer all Questions

Time: Three hours

- i. Differentiate between microeconomics and macroeconomics. (04 Marks)
- ii. Briefly explain the functions of money. (04 Marks)
- iii. What is meant by depreciation? What are the impacts of great depreciation occurred in 1930s? (06 Marks)
- iv. Explain the various kinds of policies that the government has used to influence the macroeconomy. (06 Marks)

(Total 20 Marks)

- i. Explain the advantages of calculating national income of a country. (05 Marks)
- ii. "Gross Domestic Products (GDP) includes final goods and services only" Explain using an example. (05 Marks)

- iii. **Suppose an economy is described by the following structural equations:**

$$C = 10 + b(Y - 40 - tY)$$

$$I = 50$$

$$X = 20$$

$$M = 5 + 0.1Y.$$

Here assume that

(a) $MPC = 0.75,$

(b) the budget of the government is in balance,

(c) the proportional tax rate $t = 0.20$.

Answer the following questions:

- a. Find out the equilibrium level of national income. (02 Ma
- b. What is the value of the foreign trade multiplier? (02 Ma
- c. What is the value of imports at equilibrium income? (02 Ma
- d. If equilibrium national income is less than the full-employment level of income by Rs. 100 crores, what should be the increase in government spending or in exports to attain the full-employment level of income? (02 Ma
- e. What will be the required increase in exports to attain the same target? (02 Ma

(Total 20 M

3. i. Distinguish between the product market and money market. (04 Mar
- ii. Graphically derive the IS curve when (investment function) $I = 200 - 2000i$ and interest rates are 8%, 6% and 4% respectively (using four Quadrant) (10 Mar
- iii. List out the factors which are affecting a firm's investment decisions. (06 Mar

(Total 20 M

4. i. Explain the Keynesian Psychological law of Consumption using appropriate example. (06 Mar
- ii. "When absolute income increases, absolute consumption increases but absolute income decreases, the households do (08 Mar

not allow their consumption to fall in proportion to the fall in their income". Explain using the diagram.

- iii. Suppose you start working at age 20, work until age 65, and expect to earn Rs. 50,000 each year, and you expect to live to 80.

Find the following

- a. Lifetime income (02 Marks)
- b. Annual Consumption (02 Marks)
- c. Saving from the current earnings for the future consumption (02 Marks)

(Total 20 Marks)

- i. Explain the determinants of transaction demand for money. (04 Marks)
- ii. Briefly explain the main functions of Commercial Banks. (04 Marks)
- iii. Describe the determinants of money supply in an economy. (06 Marks)
- iv. According to the Classical Theory of Output and Employment, "The Economy is in Equilibrium" explain. (06 Marks)

(Total 20 Marks)