

EASTERN UNIVERSITY SRI LANKA

FACULTY OF COMMERCE AND MANAGEMENT

SECOND YEAR SECOND SEMESTER EXAMINATION IN BBA/BCOM (2016/17)

PROPER / REPEAT (January 2019)

ECN 2033 Macroeconomics

Answer all Questions

Time: Three hours

1. i. "ATM card increases the velocity of money". True or false. Justify. (05 Marks)
- ii. Why did the classical economists believe that any long-term unemployment has to be voluntary? (07 Marks)
- iii. What is meant by "Transaction demand for money"? Explain the main factors which determine the above demand for money. (08 Marks)

(Total 20 Marks)

2. i. What is meant by transfer payment? (03 Marks)
- ii. Using hypothetical information briefly explain the expenditure multiplier. (03 Marks)
- iii. Explain the concept of gross national Product (GNP) and Gross Domestic product (GDP)? (06 Marks)
- iv. The equations in an economy are given as:

Consumption  $C = 260 + 0.8 Y_d$

Investment function  $I = 320$

Tax  $T = 300$

Government Expenditure  $G = 300$

Exports  $X = 300 - 0.05Y$

You are required to ascertain the following:

- a. Find the equilibrium level of income
  - b. Find the net exports at equilibrium level of income
  - c. Find the equilibrium level of income and the net exports when there is an increase in investment from 320 to 340
  - d. Find the equilibrium level of income and the net exports when the net export function becomes  $280 - 0.05Y$
3. i. Explain the properties of IS curve.
- ii. Derive the equation for IS curve and represent it graphically.

$$C = 10 + 0.5 Y \text{ (Consumption function)}$$

$$I = 190 - 20i \text{ (Investment function)}$$

iii.	Consumption	$C = 50 + 0.9 (Y - T)$
	Tax Revenue	$T = 100$
	Investment	$I = 150 - 5i$
	Government Expenditure	$G = 100$
	Money Demand	$L = 0.2Y - 10i$
	Real money Supply	$M/P = 100$
	Exports	$X = 20$
	Imports	$M = 10 + 0.1Y$

(Where  $Y$  = income,  $i$  = rate of interest (figures in Million Rupees))

Find the following

- a. Obtain the IS and LM equations of the economy. (04 Marks)
- b. Find out equilibrium income and rate of interest. (04 Marks)
- c. Find the balance of trade. (02 Marks)

**(Total 20 Marks)**

- 4. i. How do the rationale investors take the investment decision? (03 Marks)
- ii. Explain the process of money multiplier? (04 Marks)
- iii. Explain the relationship between the level of money supply and the price level of an economy. (06 Marks)
- iv. How far is a weighted average price index useful in measuring inflation of an economy? (07 Marks)

**(Total 20 Marks)**

5. **Briefly explain the followings.**

- i. Two sector model income circular flow (05 Marks)
- ii. Demand pull inflation (05 Marks)
- iii. Functions of money (05 Marks)
- iv. Unemployment (05 Marks)

**(Total 20 Marks)**