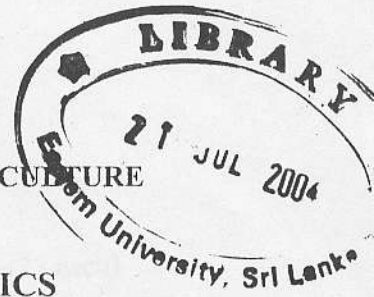


EASTERN UNIVERSITY, SRI LANKA
FIRST YEAR / SECOND SEMESTER EXAMINATION IN AGRICULTURE
(MARCH 2004)



AEC 1202: INTRODUCTORY MACROECONOMICS

Answer All Questions

Time allowed: 03 hours

01. a) Briefly analyse the importance of Macroeconomics? (30 marks)
- b) What are the components of Aggregate demand? (25 marks)
- c) Briefly explain the following terms.
- i) Tax
- ii) Investment
- iii) Average Propensity to Consume (APC) (45 marks)
02. a) Briefly explain the Circular Flow of National Income. (40 marks)
- b) The following information about a nation's economy, is given to you

Components	Amount (million Rs)
Exports	80
Imports	90
Investment	80
Consumption	270
Subsidies	10
Depreciation	20
Indirect taxes	40
Government Expenditure	70

Based on the above data, calculate the following: -

- i) Gross National Product (GNP)
- ii) Net National Product (NNP)
- iii) National Income (NI) (60 marks)
03. a) Explain the different methods of measuring National Income. (40 marks)
- b) Give the usefulness of National Income statistics? (20 marks)
- C) "In the calculation of a country's National Income, the value of the rubber industry's output used by the tyre industry is not directly included". Explain the above statement.

(40 marks)
(P.T.O)

04. Write **SHORT NOTES** on the followings.

- a. Multiplier
- b. Limitations in National Income Accounting.
- c. Price Indices.
- d. Factors affecting the Consumption Function. (25 each)

05. a) Explain and differentiate GNP Deflator and Consumer Price Index (CPI). (30 marks)
- b) Differentiate Inflationary Gap from Deflationary Gap? (30 marks)
- c) Prove that the value of the Balanced Budget Multiplier is always equal to 1. (10 marks)
- d) The household sector's planned consumption is given by the following model.

$$C = 50 + 0.5 Y$$
$$I = \text{Rs } 40 \text{ million;}$$

Where,

C = Consumption

Y = Income

I = Investment

- Calculate
- (a) the Equilibrium level of Income
 - (b) Equilibrium level of Saving
 - (C) Equilibrium level of Consumption (30 marks)

06. a) Define Fiscal Policy and list its objectives. (40 marks)
- b) What is the relationship between taxation & Fiscal Policy? (20 marks)
- c) Describe the role of Fiscal Policy in Developing Countries, by giving examples from Sri Lanka. (40 marks)
