

EASTERN UNIVERSITY, SRI LANKA
FIRST YEAR/ SECOND SEMESTER EXAMINATION IN AGRICULTURE- 2006
AEC 1201: INTRODUCTORY MACRO ECONOMICS

Answer all questions

Time allowed: 02 hours

01) a) What are the Macro-economic goals?

b) Critically examine the following statements:

1. Transfer payments are not included in the government spending component of Gross National Product (GNP)
2. Real GNP is called as "GNP in constant dollars"
3. GNP is not directly include the market value of all goods produced in the nation during a given time period
4. The amount of income earned in the production of output is not equal to the personal income
5. Consumer Price Index (CPI) not include the prices of all goods and services produced in the economy

c) Assume there are only three goods in the economy and that neither is an intermediate good.

Item	Price of the Good in 1990	Quantity of the Good in 1990
Good X	\$ 15.00/ GoodX	250
Good Y	\$ 12.00/ GoodY	350
Good Z	\$ 17.50/ GoodZ	300

Item	Price of the Good in 1995	Quantity of the Good in 1995
Good X	\$ 20.00/ GoodX	270
Good Y	\$ 18.00/ GoodY	360
Good Z	\$ 19.50/ GoodZ	320

i) What is the implicit GNP price deflator in 1995?

ii) What is the inflation rate between 1990 and 1995?

02) a) Briefly explain the factors affecting aggregate supply?

b) Marginal efficiency of capital in the sense means scope for investment opportunities at a particular time in any economy. Suppose supply price of machinery is \$3000. Life of machinery is 2 years. In the first year machine is expected to yield income of 1100/=. In the second year 2420/=. What is the marginal efficiency of capital value of this machinery?

c) Assume that a particular market basket contains 10X, 20Y, 45Z. The current year prices for goods X, Y, Z are \$ 1, \$ 4 and \$ 6 respectively. The base year prices for goods X, Y, Z are \$ 1, \$ 3 and \$ 5 respectively. What is the CPI in the current year?

03) a) Write short notes on the followings:

1. Expenditure method as a way for National Income measurement
2. Injection & leakages in a Macroeconomic model
3. Conditions for inflationary & deflationary gaps in an economy
4. Investment
5. Appreciation & Depreciation

b) Briefly explain how Taxation leads to Economic growth in a developing country like Sri Lanka?

c) Find out the National Income in the given situation:

Consumption expenditure- \$60,	Gross investment- \$20
Government purchase of goods and services- \$30,	Net exports- \$ -10
Depreciation- \$10,	Subsidies- \$50
Net income from overseas- \$50,	Indirect tax- \$40

04) a) Briefly describe the factors affecting consumption demand

b) Given the multiplier (k) is 4, what is (Marginal Propensity to Consume) MPC & (Marginal Propensity to Save) MPS?

c) The household sector's planned Consumption is given by the following equation:

$$C = \$50 + 0.8Y_d$$

$$I = \$40.00$$

C = Consumption

Y_d = Disposable income

I = Investment

Calculate the values of level of Disposable income, level of Investment, and level of Saving: