

EASTERN UNIVERSITY, SRI LANKA

FIRST YEAR SECOND SEMESTER EXAMINATION IN AGRICULTURE-2005/2006

AEC 1201: INTRODUCTORY MACRO ECONOMICS

Answer all Questions

Time allowed: 2 hours

01. a) Briefly analyse the importance of Macro economics
b) Explain and differentiate Nominal GNP and Real GNP
c) Explain the simple circular flow model of an economy
d) Describe the role of Fiscal policy in developing countries like Sri Lanka
e) Define Fiscal policy and list out the objectives of Fiscal policy

02. a) Define Price Indices
b) Briefly explain the different types of Price Indices
c) Assume that there are only two goods produced in an economy and neither is an intermediate good

Goods produced	1998		1999	
	Quantity	Price	Quantity	Price
A	400	Rs 10	440	Rs 10
B	300	Rs 24	360	Rs 25

Using the data given above calculate the following

- i) The nominal GNP during 1998 and 1999
ii) Using 1998 as the base year, what is the real GNP in 1999?
iii) Price Deflator in 1999
d) Explain the different methods of measuring National income

03. a) Differentiate Inflationary Gap from Deflationary Gap
b) Briefly explain the injections and leakages in a two sector model of the economy.
c) Prove that the value of the Balanced Budget Multiplier is always equal to 1 (one)
d) The household sector's planned consumption function is given by the following

$$C = 40 + 0.75 Y$$

$$I = \text{Rs } 60 \text{ million}$$

Where,

C = Consumption

Y = Income

I = Investment

- a) Calculate the Equilibrium level of National income
b) Find out the Equilibrium level of saving at the equilibrium level of national income.
c) Find out the level of consumption at the equilibrium level of national income.

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

- a) Limitations in National Income Accounting
b) Factors affecting Consumption Function
c) Investment
d) Taxes