

Eastern University, Sri Lanka

EASTERN UNIVERSITY, SRILANKA.
FACULTY OF COMMERCE AND MANAGEMENT
DEPARTMENT OF ECONOMICS
SECOND YEAR 1ST SEMESTER EXAMINATION IN BBA/ BCOM 2008/2009
(APRIL 2010)
ECN2033 MACRO ECONOMICS

Answer all Questions

Time 3 Hours

1. a). Explain the nature of macro economics. (04 Marks)
b). What are the macro economic problems? (08 Marks)
c). What are the objectives of macro economic policy? (08 Marks)
(Total 20 Marks)
2. Using the following information answer the questions.
 $C = 30 + 0.80 Y_d$, $T_n = 50$, $I = 60$, $G = 50$, and $X = 50 - 0.05Y$
- a) Give the saving function of this economy. (04 Marks)
b) Find out the equilibrium level of output. (04 Marks)
c) What is the net export balance at this equilibrium level of output? (04 Marks)
d) What happens to the equilibrium level of output and the net export balance when investment increases from Rs.60 to Rs.70? (04 Marks)
e) What happens to the equilibrium level of output and the net export balance when the net export function changes from $50 - 0.05Y$ to $40 - 0.05Y$? (04 Marks)
(Total 20 Marks)
3. Explain the following briefly.
- a) Permanent income hypothesis (05 Marks)
b) Absolute income hypothesis (05 Marks)
c) Explain the marginal efficiency of capital? (05 Marks)
d) Suppose the investment yields income Rs.500 in the first year, Rs.1000 in 2nd year, and Rs.500 in the 3rd year. If the rate of interest is 10%, what is the present value of this income stream? (05 Marks)
(Total 20 Marks)

4. (a) How does money solve the problems of the barter system? (4 Marks)
- (b) Describe the transaction demand for money. (4 Marks)
- (c) Why is the speculative demand for money interest – elastic? (4 Marks)
- (d) Briefly explain the high powered money? (4 Marks)
- (e) Explain the important functions of Central Bank. (4 Marks)

(Total 20 Marks)

- 5 (a) Briefly explain the demand - pull inflation. (04 Marks)
- (b) What is meant by inflationary gap? (04 Marks)
- (c) How can central bank control the inflation? (04 Marks)
- (d) Distinguish between the current account and the capital account? (04 Marks)
- (e) What is meant by disequilibrium of balance of payment and how can a country reduce this disequilibrium? (04 Marks)

(Total 20 Marks)