

EASTERN UNIVERSITY, SRI LANKA
FACULTY OF COMMERCE AND MANAGEMENT
SECOND YEAR SECOND SEMESTER EXAMINATION IN BBA/BCOM
2009/2010
ECN 2033: Macro Economics



Answer all questions

03 hours

- 1) a). Briefly distinguish between micro and macro Economics. (5 Marks)
- b). Explain the importance of learning macro Economics. (5 Marks)
- c). Define marginal Efficiency of Capital. How is it used to find the optimum level of investment? (6 Marks)
- d). What is meant by autonomous and induced investment? (4 Marks)
- (Total 20 Marks)

2) a). Using the following information answer the questions below.

C (consumption)	=60+0.9yd
I (Investment)	=10
G (Government expenditure)	=10
T (Tax)	=0
X (Exports)	=20
M (Imports)	=10+0.05 Y

- I. What is the equilibrium level of income? (4 Marks)
- II. Find the level of consumption at the equilibrium level of income. (2 Marks)
- III. Derive the saving function and find the level of saving at the equilibrium level of income. (3 Marks)
- IV. Calculate the trade balance of this economy (3 Marks)
- V. Find the value of foreign trade multiplier. (3 Marks)
- b) Briefly explain three sector model income circular flow of the three sector economy with a diagram.

(5 Marks)
(Total 20 marks)

3)

a). What is meant by life cycle theory of consumption?

(6 Marks)

b). Suppose Jone started working at age 20 and works until age 65, and expect to earn \$ 50, 000 each year, and he expects to live up to 80. Find out the following.

1. Life time income of Jone.

(4 Marks)

2. Number of working years.

(5 Marks)

3. Working life consumption and saving

(5 Marks)

(Total 20 marks)

4) a) Briefly Point out important functions of money.

(5 Marks)

b) What are the main determinants of money supply of a country?

(5 Marks)

c) Differentiate the Classical theory of Demand for money from Keynesian theory of Demand for money.

(10 Marks)

(Total 20 marks)

5)

a) What is inflation? Differentiate the Demand - pull inflation and Cost - push inflation.

(5 Marks)

b) What do you mean by Balance of Payments: Point out the important components which should be included in the Balance of Payments presentation of a country?

(5 Marks)

c) Write down the functions of Central bank of a Country.

(5 Marks)

d) Explain the role of Commercial Banks in the development of a country.

(5 Marks)

(Total 20 marks)