

EASTERN UNIVERSITY, SRILANKA

**PART – I EXAMINATION IN ARTS & CULTURE – 1999/2000
(JAN 2004)**

(EXTERNAL DEGREE)

ECO 202 MACROECONOMICS

Answer any five questions.

Time: 3 hours.

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- 1 a Define the essential features of classical macro economic theory. (10 marks)
- b Briefly explain the reasons for the lose of prestige in thirties ? (10 marks)
- 2 a Differentiate between open and closed economy (4 marks)
- b What do you understand by the term “equilibrium level of National Income”? (4 marks)
- c The consumption function of a closed economy is given as follows.

$$C = 40 + 0.8Y$$

Answer the following questions.

- I Autonomous investment (I) = Rs.40 Million. Find out the equilibrium level of National income. (4 marks)
- II Government expenditure (G) =Rs.30 Million. Find out the new equilibrium level of National income. (4 marks)
- III The government wishes to increase the National income by Rs.200 million. Find the required amount to be increased in government spending.(4 marks)

- 3 a Explain the term "consumption function". (4 marks)
b Explain life cycle theory of consumption function. (4marks)
- c Describe the permanent income hypothesis propounded by Milton friedman. (12 marks)
- 4 a What do you understand by the term "Transactions demand for money"? (8 marks)
b Explain the factors that determine transaction demand for money. (12 marks)
- 5 a Distinguish between autonomous investment and induced investment (6marks)
b. Explain the term foreign direct investment. (4marks)
- c How do the rate of interest and the marginal efficiency of capital determine the private investment in an economy ? (10marks)
- 6 a Explain the causes of balance of payments problem of a country (10 marks)
b What are the remedial measures a country should follow to solve this problem? (10 marks)
- 7 "A trade cycle is characterized by alternating expansionary and concretionary wavy movements in the aggregate business activity". Discuss. (20 marks)
- 8 Write short notes on any three of the following
a. Costs- push inflation.
b. Floated exchange rate.
c. Monetary policy.
d. Fiscal policy. (20 marks)