

EASTERN UNIVERSITY SRI LANKA
FACULTY OF COMMERCE AND MANAGEMENT
SECOND YEAR FIRST SEMESTER EXAMINATION IN BBA/BCOM
(2018/2019)

REPEAT (December 2021)
ECN 2033 Macroeconomics

Answer all Questions

Time: Three hours

1. a. Distinguish between micro economics and macroeconomics. (06 Marks)
- b. Explain the importance of macroeconomics. (06 Marks)
- c. "According to Classical view there is no general overproduction or no underproduction in long term". Explain. (08 Marks)

(Total 20 Marks)

2. a. "Marginal propensity to consume refers the relationship between consumption and income". Explain. (06 Marks)
- b. Distinguish between personal and disposable income. (06 Marks)
- c. Suppose the behavioral equations and identities for an economy are given follows. (08 Marks)

Consumption - $C = 2000 + 0.80 Y_d$
Investment - $I = 500,$
Government expending - $G = 400,$
Tax - $T = 100 + 0.25Y$
Transfer - $Tr = 100$
Export - $X = 200,$
Import - $M = 50 + 0.20Y,$

Determine:

1. Equilibrium level of Income, consumption, savings and imports.
2. Foreign Trade Multiplier

(Total 20 Marks)

3. a. What are the four functions that money serves? (06 Marks)
- b. What are the determinants of money multiplier? (06 Marks)
- c. Explain the motives of Keynesian demand for money. (08 Marks)

(Total 20 Marks)

4. a. What is meant by inflation? (06 Marks)
- b. Briefly explain the concept of autonomous consumption. (06 Marks)
- c. Suppose an individual enters the labor force at age 25; annual disposable income until retirement at age 65 is 30,000; and life expectancy is 75 years. Calculate the following. (08 Marks)
- i. Working Duration.
 - ii. Life time earning
 - iii. Annual consumption

(Total 20 Marks)

5. a. What is meant by national income? (04 Marks)
- b. Explain the two sector model income circular flow diagram. (08 Marks)
- c. Suppose product market model and money market model is given as follows. (08 Marks)

$$C = 100 + 0.80(Y - T)$$

$$S = -100 + 0.20(Y - T)$$

$$I = 200 - 1080i$$

$$G = 100$$

$$T = 50 + 0.20Y$$

$$M_s = 250 \text{ billion}$$

$$M_d = 100 + 0.5Y - 2500i$$

Find the following.

- i. Function for the IS curve
- ii. Function for the LM curve
- iv. Interest and income at the general equilibrium

(Total 20 Marks)