

EASTERN UNIVERSITY SRI LANKA
FACULTY OF COMMERCE AND MANAGEMENT
SECOND YEAR FIRST SEMESTER EXAMINATION IN BBA/BCOM
(2018/2019)
PROPER / REPEAT (December 2021)
ECN 2033 Macroeconomics

Answer all Questions

Time: Three hours

1. a. Distinguish between micro economics and macroeconomics. (04 Marks)
- b. Explain the importance of macroeconomics. (04 Marks)
- c. "Say's law of markets is the core of the classical theory of employment" explain. (06 Marks)
- d. "According to Classical view there is no general overproduction or no underproduction in long term". Explain. (06 Marks)

(Total 20 Marks)

2. a. "Marginal propensity to consume refers the relationship between consumption and income". Explain. (04 Marks)
- b. Distinguish between personal and disposable income. (04 Marks)
- c. Describe the components of the aggregate expenditure of four sector economy model. (04 Marks)
- d. 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
3. Effect on income of each of the following
 - (a) Increase in government spending by 20
 - (b) Increase in autonomous taxation by 20
4. Budget Surplus at equilibrium
5. Net Exports (NX) at equilibrium

(Total 20 Marks)

3. a. What are the four functions that money serves? (04 Marks)
- b. What are the determinants of money multiplier? (04 Marks)
- c. "When aggregate demand exceeds aggregate supply at full employment level the demand is called an excess demand and the gap is called inflationary gap" briefly explain the **inflationary gap** using diagram. (06 Marks)
- d. Explain the motives of Keynesian demand for money. (06 Marks)

(Total 20 Marks)

4. a. Individuals are disposed to increase their consumption as their income increases, but not by as much as the increase income". Briefly explain using appropriate example. (06 Marks)
- b. What is meant by Ratchet effect? Explain the Ratchet effect using a diagram. (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
- iv. Annual saving
- v. Consumption After retirement
- vi. Average Propensity to Consume (APC) while employed.

(Total 20 Marks)

5. a. Distinguish between the product and the money markets? (04 Marks)
- b. Explain the factors that determine the slope of the IS curve. (04 Marks)
- c. Suppose product market model and money market model is given as follows. (12 Marks)

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

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

$$I = 200 - 1080 i$$

$$G = 100$$

$$T = 50 + 0.20Y$$

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

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

Find the following.

- i. Function for the IS curve
- ii. Function for the LM curve
- iii. Equation for the general equilibrium
- iv. Income at the general equilibrium, and
- v. Interest rate at the general equilibrium

(Total 20 Marks)