

23 AUG 2013

EASTERN UNIVERSITY, SRILANKA.

FACULTY OF COMMERCE AND MANAGEMENT

DEPARTMENT OF ECONOMICS

SECOND YEAR SECOND SEMESTER EXAMINATION IN BBA/ BCOM

2010/2011 (MAY/JUNE 2013) (PROPER/REPEAT/RE-REPEAT)

ECN2033 MACRO ECONOMICS

Answer all Questions

Time 3 Hours

1. (a) How is macroeconomics different from microeconomics? (04 Marks)
(b) Describe the major concerns of macroeconomics. (08 Marks)
(c) Explain the process of business cycle? (08 Marks)
(Total 20 Marks)

2. (a) Briefly explain Marginal Propensity to Consume (MPC). (04 Marks)
(b) Distinguish between Personal Income and Disposable Personal Income. (04 Marks)

(c) Using given information, answer the following questions.

$$C = 100 + b(Y - 50 - tY) \quad I = 50, \quad G = 50, \quad X = 10 \quad \text{and} \quad M = 5 + 0.1Y$$

I = Investment, G = Government Spending, X = export, and M = Import

The Marginal propensity to consume (b) is equal to 0.8 and proportional income tax rate (t) is 0.25.

- (i) Find equilibrium level of national income. (04 Marks)
(ii) Drive the foreign trade multiplier. (04 Marks)
(iii) Calculate the equilibrium value of imports? (04 Marks)

(Total 20 Marks)

3. (a) Describe the functions of money? (4 Marks)
(b) What are the significances of money in modern economy? (4 Marks)
(c) How do commercial banks create money? (4 Marks)
(d) Briefly describe the kinds of money supply in Sri Lanka? (4 Marks)
(e) Explain the process of money multiplier. (4 Marks)

(Total 20 Marks)

4. (a) Briefly explain the main instruments of monetary policy (Credit Policy). (04 Marks)
- (b) What is meant by net present value (NPV)? (04 Marks)
- (c) How do the rationale investors take the investment decision? (04 Marks)
- (d) Distinguish between capital and investment? (04 Marks)
- (e) States the main functions of Central Bank? (04 Marks)

(Total 20 Marks)

5. (a) Briefly explain the postulates made by the classical economists. (04 Marks)
- (b) Show the derivation of MPP_L curve. (04 Marks)
- (c) Explain the classical Model of employment and output determinations. (06 Marks)
- (d) According to Say's law "Supply creates its own demand". Explain. (06 Marks)

(Total 20 Marks)