

EASTERN UNIVERSITY, SRI LANKA.

FIRST YEAR SECOND SEMESTER EXAMINATION IN AGRICULTURE 2012

AEC: 1201 INTRODUCTORY MACRO ECONOMICS

REPEAT EXAMINATION

Answer ALL questions

Time allowed: 2 Hours

10 JUN 2013

1. a. Briefly explain the importance of Macroeconomics.
  - b. Graphically illustrate the Business Cycle.
  - c. Suppose planned consumption equals  $50 + 0.80Y_d$ ;  $I = 80$ ; and if there is no government sector;
    - i. Derive an equation for the savings function.
    - ii. Find the equilibrium level of income.
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2. a. Explain and differentiate Nominal GDP and Real GDP
  - b. Assume that there are only two goods produced in an economy. Using the following data calculate the Real and Nominal GDP for 1990 and 2008. (Assumption: Take 1990 as the base year).

| Goods produced | 1990     |             | 2008     |             |
|----------------|----------|-------------|----------|-------------|
|                | Quantity | Price (Rs.) | Quantity | Price (Rs.) |
| Good X         | 20       | 20          | 25       | 35          |
| Good Y         | 40       | 18          | 55       | 30          |

- c. Write the consumption function and explain the variables in it.

3. Write **SHORT NOTES** on the following.

a. Fiscal Policy

b. Investment Expenditure

c. Budget Surplus and Budget Deficit

4. a. Explain and differentiate Direct and Indirect taxes

b. What is Inflation? Differentiate Inflationary Gap and Deflationary Gap.