

EASTERN UNIVERSITY, SRI LANKA
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EASTERN UNIVERSITY, SRI LANKA.
FIRST YEAR SECOND SEMESTER EXAMINATION IN AGRICULTURE 2014
AEC: 1201 INTRODUCTORY MACRO ECONOMICS

REPEAT
EXTERNAL DEGREE

Answer **ALL** questions
Time allowed: 2 Hours

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1.
 - a. Briefly discuss the importance of studying Macroeconomics.
 - b. Graphically illustrate the “Circular Flow” of National Income and Expenditure model, with the government sector.
 - 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.

 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

3. a. Briefly explain what is Fiscal Policy and Monetary Policy.

b. Explain the objectives of Fiscal Policy in developing countries.

4. Explain and differentiate the following (Using suitable examples if necessary).

i. Direct and Indirect taxes

ii. Induced Investment and Autonomous Investment

iii. Inflationary Gap and Deflationary Gap
