



UNIVERSITY OF KELANIYA – SRI LANKA

Centre for Distance and Continuing Education

FACULTY OF COMMERCE & MANAGEMENT STUDIES

Bachelor of Commerce (Special) Degree Second Year Examination (External) – 2015

March/ November 2021

BCOM E 2055 – Macroeconomics

No. of questions: Six (06)

Time: 03 hours

Answer any five (05) questions.

Question No. 01

a). Explain the different between Macroeconomics and Microeconomics.

(05 Marks)

b). "The study of macro-economic theory is important in finding solutions to economic issues in an economy". Describe this statement with respect to existing covid 19 related economic issues in Sri Lanka.

(08 Marks)

c). "Although macroeconomics is a very important tool for economic management, there are limitations to its application." Do you agree with the statement? Explain your answer.

(07 Marks)

(Total 20 Marks)

Question No. 02

a). What is meant by a transfer payment? How does it influence on consumer disposal income?

(06 Marks)

b). The fundamental equations in an economy are given as: All figures in Rs. Million.

| | | | |
|------------------------|---|---|-----------------|
| Consumption Function | C | = | $600 + 0.80Y_d$ |
| Investment Function | I | = | 700 |
| Tax | T | = | 200 |
| Government Expenditure | G | = | 500 |
| Exports | X | = | 200 |
| Imports | M | = | $0.02Y$ |

Find the following.

- i). The equilibrium level of income
- ii). Consumption expenditure at the equilibrium income
- iii). The net exports at the equilibrium income
- iv). The increase in the income if both government expenditure and tax are increased by Rs Billion 50 of each expenditure.

(08 Marks)

- c). What is the effect of increase income tax and the government expenditure on circular flows of income and expenditure?

(06 Marks)

(Total 20 Marks)

Question No. 03

- a). Explain difference between Expansionary Fiscal Policy and Contractionary Fiscal Policy.

(07 Marks)

- b). "Fiscal policy is the most powerful tool of achieving macro-economic goals". Do you agree with this statement? Explain your answer.

(07 Marks)

- c). Describe limitations of Monetary Policy.

(06 Marks)

(Total 20 Marks)

Question No. 04

- a). i). Why is it often said that the official unemployment rate tends to underestimate the true extent of unemployment in an economy?

- ii). Describe different types of inflation.

(12 Marks)

- b). i). Explain the difference between demand-driven inflation and cost-driven inflation

ii). What are the price indices used to measure the general price level in Sri Lanka?

(08 Marks)

(Total 20 Marks)

Question No. 05

a). According to the IS-LM model, what happens to the output to the interest rate, income, consumption, and investment under the following circumstances in the Short run? Be sure your answer includes an appropriate graph.

i). The central bank increases the money supply.

ii). Increases government purchases.

iii). As a Fiscal measure increase Income taxes.

iv). A decision taken Government to increase the Transfer Payments.

(12 Marks)

b). Using separate graphs in each state, briefly explain the following situations with regard to the Aggregate Demand (AD) and Aggregate Supply (AS).

i). An increase in Government spending.

ii). An increase in the wages that businesses must pay.

iii). Increase in human capital which significantly improves productivity.

iv). Decrease in interest rates which effects investments.

(08 Marks)

(Total 20 Marks)

Question No. 06

Write short notes on following:

a). Consumption function.

b). Monetary policy to have the economic stabilization objectives.

c). Investment function.

d). Marginal Propensity to Consume (MPC).

e). Consequences of Unemployment.

(04 Marks x 5 = **Total 20 Marks**)

