



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) – 2016

May 2022

BCOM E2055 – Macroeconomics

No. of questions: Six (06)

Time: 03 hours

Answer any five questions.

Question No. 01

a). Explain relationship between Microeconomics and Macroeconomics.

(05 Marks)

b). i). “Increases in real Gross Domestic Product (GDP) are often interpreted as increase in welfare”. Do you agree? Explain.

(05 Marks)

ii). Explain difference between Gross Domestic Product (GDP) and Gross National Product (GNP).

(05 Marks)

c). “The study of macroeconomic theory is important in finding solution to macroeconomic problems of the economy”. Discuss.

(05 Marks)

(Total 20 Marks)

Question No. 02

a). i). Illustrate graphically the circular flows of income and expenditure in a four sector model.

(05 Marks)

ii). Explain how withdrawals and injections affect the size of the circular flows of income and expenditure in an economy.

(05 Marks)

b). Suppose that a hypothetical economy is in equilibrium at,

$$Y = C + I + G + (X - M)$$

$$C = 300 + 0.80(Y - T)$$

$$I \text{ (Investment)} = 400$$

$$G \text{ (Government expenditure)} = 300$$

$$X \text{ (Export)} = 200$$

$$M \text{ (Imports)} = 30 + 0.1Y$$

$$T \text{ (Tax)} = 70$$

All figures in Rupees Million. You are required to

i). Calculate the national income at equilibrium.

(04 Marks)

ii). Calculate consumption at equilibrium income.

(03 Marks)

iii). How much additional government expenditure would be required to increase the equilibrium level of national income by Rs.40 million.

(03 Marks)

(Total 20 Marks)

Question No. 03

a). Explain relationship between the interest rate and income.

(05 Marks)

b).i). "IS-LM model combine the equilibrium conditions of both product and money market to

arrive at the general equilibrium". Discuss

(05 Marks)

ii). Describe how government direct taxation and government expenditure effects to the IS curve?

(05 Marks)

c). Describe how macroeconomic policy has been used to minimize Covid -19 negative effect in Sri Lankan economy.

(05 Marks)

(Total 20 Marks)

Question No. 04

a). “Budget is a statement of expected receipts and expected expenditures of the government for the financial year”.

i). “Balanced budget raises the level of aggregate demand (AD) of a country”. Discuss.

(05 Marks)

ii). How does budgetary policy can be used to minimize economic issues in Sri Lanka?

(05 Marks)

b). i). Flexible exchange rate policy has been introduced by Sri Lankan government. Discuss its impact on the economy.

(06 Marks)

ii). What are the factors that affect the rate of exchange?

(04 Marks)

(Total 20 Marks)

Question No. 05

a). “Inflation is simply a persistent and appreciable rise in general price Level of a country”.

i). Critically examine the effect on inflation on economic development of a country

(05 Marks)

ii). "Inflation is an outcome of an imbalance in demand for and supply of goods and services". Do you agree that inflation is an out come of an in balance in demand for and supply of goods and services? Explain.

(05 Marks)

b). A.W. Phillips found an inverse relationship between the rate of inflation and the rate of unemployment.

i). Discuss the reasoning behind the negative slope of the Phillips curve.

(05 Marks)

ii). Explain the importance of monetary policy to minimize unemployment rate of a developing country?

(05 Marks)

(Total 20 Marks)

Question No. 06

Write short notes on the following;

a). Colombo Consumers' Price Index (CCPI).

b). Contracting economy.

c). Natural rate of unemployment.

d). LM Curve.

e). Money laundering

(04 Marks for each)

(Total 20 Marks)