



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) – 2022

March 2024

BCOM E2055 – Macroeconomics

No. of questions: Six (06)

Time: 03 hours

Answer only five (05) Questions.

Question No. 01

- a). Discuss the key macroeconomic variables that are commonly used to measure the economic performance of an economy.
(05 Marks)
- b). Discuss the challenges and opportunities the Sri Lankan economy faced in the post-pandemic period.
(05 Marks)
- c). Imagine you are an economic advisor to the government of a country experiencing a recession. The government has tasked you with providing recommendations on stimulating economic growth and reducing unemployment. Suggest at least five recommendations.
(10 Marks)

(Total 20 Marks)

Question No. 02

- a). Using the circular flow model, analyze the impact of increased government spending on the economy.
(06 Marks)
- b). Explain the main assumptions of Kanyne's income determination model.
(06 Marks)

- c). “Sri Lankan is experiencing a recessionary gap, where actual output is below potential output”. Using Keynesian theory, discuss how the government could implement fiscal policy to overcome the recessionary gap and stimulate economic growth.

(08 Marks)

(Total 20 Marks)

Question No. 03

- a) Explain the ISLM model and its main components.

(05 Marks)

- b). How do government spending and taxation changes impact aggregate demand output and interest rate? Explain using the IS-LM model.

(05 Marks)

- c). You are given the following economic function of a hypothetical economy.

$$\text{Consumption (C)} = 400 + 0.80 (Y - 120)$$

$$\text{Investment (I)} = 160 - 20r$$

$$\text{Government expenditure (G)} = 150$$

$$\text{Money demand (M}_d\text{)} = 0.25Y - 6r$$

$$\text{Money supply (MS)} = 120$$

- i. Compute the equilibrium income using the IS-LM model.
ii. Suppose the government increases its expenditure on education and health services by 200 million. What would be its impact on the equilibrium income?

(10 Marks)

(Total 20 Marks)

Question No. 04

- a). Explain the importance of fiscal and monetary policies to an economy.

(06 Marks)

- b). Describe the effectiveness of expansionary fiscal policy in driving economic growth amidst recessionary periods.

(06 Marks)

- c). Explain the significance of studying monetary policy in addressing the current macroeconomic challenges of the Sri Lankan economy.

(08 Marks)

(Total 20 Marks)

Question No. 05

- a). What are the leading causes of the current inflation in Sri Lanka?
(05 Marks)
- b). Explain what possible remedies can be used to control the current inflation rate in Sri Lanka.
(05 Marks)
- c). i. Discuss the Phillips curve relationship between unemployment and inflation.
ii. How does this relationship help policymakers understand the trade-off between these two economic indicators?
(10 Marks)

(Total 20 Marks)

Question No. 06

- a) Explain how an economy can finance the budget deficit.
(05 Marks)
- b). Discuss the consequences of Sri Lanka's government debt accumulation for future generations.
(07Marks)
- c). Explain the concept of budgetary balance and its importance for fiscal sustainability.
(08 Marks)

(Total 20 Marks)

