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) – 2023

April – 2025

BCOM E 2055 - Macroeconomics

No. of questions: Six (06)
Answer any Five (05) questions. **Time: 03 hours**

Question No. 01

a. i. Explain the main goals of macroeconomic Policy.

(04 Marks)

ii. What are the challenges governments face in achieving macroeconomic stability

(05 Marks)

b. i. How do leakages affect the equilibrium level of income in an economy?

(06 Marks)

ii. Explain how an imbalance between leakages and injections affects the overall level of economic activity.

(05 Marks)
(Total 20 marks)

Question No. 02

The IS/LM Model is a modern framework used to determine the equilibrium level of income and interest rate in an economy, incorporating interactions between the real and monetary sectors. You are provided with the following data for a hypothetical economy. All figures are in Rupees Million.

Consumption Function: $C = 120 + 0.75Yd$

Tax Function: $Tx = 50 + 0.25Y$

Government Expenditure: $G = 50$

Transfer Payments: $Tr = 60$

Investment function: $I = 120 - 70i$

Money demand: $Md = 0.30Y - 6r$

Money supply: $Ms = 200$

Required:

a. Using the equilibrium condition in the goods market, where $Y = C + I + G$, derive the IS curve equation

(05 Marks)

b. Using the money market equilibrium condition, where $Md = Ms$, derive the LM curve equation.

(04 Marks)

c. Calculate the equilibrium values of Y and I.

(05 Marks)

d. Evaluate the impact of fiscal policy, specifically an increase in government expenditure, on the equilibrium levels of income and interest rate.

(06 Marks)

(Total 20 Marks)

Question No. 03

a. i. What is the role of fiscal policy in an economy?

(04 Marks)

ii. Discuss the impact of fiscal policy measures such as increased government spending and reduced taxes on the national budget.

(04 Marks)

b. How can the government use a combination of fiscal policy (taxation and government spending) and budgetary policy (balancing the budget) to stabilize the economy?

(06 Marks)

c. Suppose the government introduces new taxes in its budget proposal. How could this effect household consumption and business activity?

(06 Marks)

(Total 20 Marks)

Question No. 04

a. i. Explain the role of central banks in implementing monetary policy.

(05 Marks)

ii. How do Central bank use tools like interest rates and open market operations to manage inflation and stabilize the economy?

(05 Marks)

b. How can monetary policy be used to support low-income families during times of high inflation?

(05 Marks)

c. Describe the impact of an expansionary monetary policy on inflation and unemployment.

(05 Marks)

(Total 20 Marks)

Question No. 05

a. Unemployment is a major economic issue that can affect both individuals and the overall economy. Governments often implement policies to reduce unemployment and promote job creation.

   i. How can fiscal and monetary policies help create more jobs while promoting economic growth?

   (06 Marks)

   ii. What specific policies can governments implement to reduce youth unemployment?

   (06 Marks)

b. Discuss how cyclical unemployment differs from other types of unemployment.

(08 Marks)

(Total 20 Marks)

Question No. 06

Write short notes on the following

a. Aggregate Demand (AD)

b. Budget Deficit

c. Demand-Pull vs. Cost-Push Inflation

d. Consumption function

e. Gross Domestic Product (GDP)

(Total Marks 20)