



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) – 2024

May – 2026

BCOM E 2055 - Macroeconomics

No. of questions: Six (06)

Answer any Five (05) questions.

Time: 03 hours

Question No. 01

a) “Macroeconomics is essential for understanding aggregate economic behavior.” Critically examine this statement.

(05 Marks)

b) Explain how government intervention can influence the circular flow of income and expenditure in an economy.

(05 Marks)

c) i. Consider the following Keynesian model:

$$C = 50 + 0.75Y_d$$

$$I = 100, G = 150, T = 50$$

Find the equilibrium national income.

ii. Critically explain evaluate whether the Keynesian model is still relevant in modern economies.

(10 Marks)

(Total 20 Marks)

Question No. 02

Consider a closed economy described by the following behavioral equations:

Consumption Function: $C = 70 + 0.8Y_d$

Tax Function: $T = 35 + 0.2Y$

Transfer Payments: $Tr = 40$

Investment Function: $I = 100 - 90r$

Government Expenditure: $G = 78$

Money Demand Function: $M_d = 0.3Y - 50r$

Real Money Supply: $M_s = 200$

Where:

Y = National Income

Y_d = Disposable Income

r = Interest Rate

Answer the following questions:

- a) i. Derive the disposable income function of the economy.
ii. Using the disposable income equation, derive the consumption function in terms of national income.

(05 Marks)

- b) Using the goods market equilibrium condition:

$$Y = C + I + G$$

Derive the IS function for the economy.

(05 Marks)

- c) Using the money market equilibrium condition: $M_d = M_s$

- i. Derive the LM function of the economy.
ii. Explain the relationship between income and interest rate in the LM curve.

(05 Marks)

- d) By simultaneously solving the IS and LM equations, determine:

- i. The equilibrium level of national income (Y)
ii. The equilibrium interest rate (r)

(05 Marks)

(Total 20 Marks)

Question No. 03

- a) Describe the relationship between unemployment and the business cycle.

(05 Marks)

- b) A country reports high unemployment among graduates, rural workers, and factory employees.

Required:

- i. Explain the different types of unemployment (frictional, structural, cyclical, seasonal).
ii. Discuss why structural unemployment is more difficult to solve than other types.

(10 Marks)

c) Explain how unemployment affects poverty and income inequality.

(05 Marks)

(Total 20 Marks)

Question No. 04

a) Explain policy challenges faced by governments when both inflation and unemployment exist.

(05 Marks)

b) Sri Lanka has experienced rising prices in food, fuel, and transport sectors.

i. Explain the main causes of inflation in developing economies.

ii. Distinguish between demand-pull and cost-push inflation using real examples.

(10 Marks)

c) Describe the Phillips Curve and its relationship between inflation and unemployment.

(05 Marks)

(Total 20 Marks)

Question No. 05

a) Explain Differentiate between expansionary and contractionary fiscal policy with examples.

(05 Marks)

b) How do interest rate changes affect investment and aggregate demand?

(05 Marks)

c) i. Describe the role of fiscal and monetary policy in achieving sustainable economic growth.

(05 Marks)

ii. Discuss the limitations of fiscal policy in developing countries.

(05 Marks)

(Total 20 Marks)

Question No. 06

Write short notes on the following

a) Economic development and Economic growth

b) Gross domestic product and per-capita income

c) Withdrawals and injection of circular flow of income and expenditure

d) Foreign Loan and Foreign investment

(Marks 05x04=20)

(Total Marks 20)

