University of Kelaniya – Sri Lanka

External Examinations Branch

Faculty of Commerce and Management

Bachelor of Commerce (Special) Degree Examination (External) – 2009

Year II

BCOME 2054 – Macroeconomics

No. of questions: Seven (07)   Time: 03 hours

Answer any five (05) questions.
Graph papers are provided.

(01)   Show how Macroeconomics as a subject has evolved over time.

(20 Marks)

(02)   a) "Macroeconomics deals with aggregate variables while microeconomics deals with disaggregate variables." Explain giving examples for each area.

(10 Marks)

b) "National income is the 'most macro' out of all the macroeconomic variables, and also it leads to understand a number of other important macroeconomic concepts" Discuss.

(10 Marks)
(Total 20 marks)

(03).   Based on the concept of circular flow of income explain how national income is measured under the following approaches:

Product approach
Income approach
Expenditure approach

(20 Marks)

(04).   Suppose a consumption and investment functions of a simplified economy have been given as follows:

$$C = 30 + 0.8 \, Y$$
$$I = 40$$
$$C = \text{Consumption and I = investment}$$

a) Find the level of equilibrium national income, level of consumption at the equilibrium income and value of the multiplier.

(06 Marks)

b) State and describe the conditions to be met for achieving equilibrium national income under the following scenarios:

   i) Closed economy containing only household, firms and government sectors

   ii) Open economy

(04 Marks)

c) Why it is said that marginal propensity to consume (MPC) in developing countries is higher than that of developed countries? Discuss its repercussions.

(06 Marks)

d) Explain how investment is determined through the following conceptions:

   i) Marginal efficiency of capital

   ii) Acceleration principle

(04 Marks)
(Total 20 marks)

(05) Find simultaneous equilibrium for the goods and money markets when

$C = 100 + 0.80\ Y_d,\ I = 150 - 6i,\ T_x = 0.25Y,\ G = 100,\ L = 0.20Y\text{-}2i$ and

$M = 150$ (all amounts are in rupees billions)

where, C = consumption, Y_d = disposable income, I = investment, i = rate of interest,

T_x = taxes, G = government expenditure, L = demand for money and M = money supply.

(20 Marks)

(06)   a) Define what inflation is.

(02 Marks)

b) Distinguish between 'demand full' and 'cost push inflation'

(06 Marks)

c) Discuss the impact of inflation on different sectors of an economy.

(08 Marks)

d) Show the various measures that can be taken to control inflation

(04 Marks)
(Total 20 marks)

(07) Write short notes on the following:

   a) Quantity Theory of Money

   b) Business Cycle

   c) Phillips curve analysis

   d) Economic Stabilization

(20 Marks)