



University of Kelaniya – Sri Lanka

External Examinations Branch

**Bachelor of Commerce (Special) Degree Second Examination (External)- 2010
December 2011/ January 2012**

Faculty of Commerce and Management

BCOME 2054 – Macroeconomics

No. of questions: Seven (07)

Time: 03 hours

Answer any five (05) questions.

(01). 'Macroeconomics deals with aggregate variables while Microeconomics deals with disaggregate variables'. Explain giving examples.

(20 Marks)

(02). Explain how Macroeconomics as a separate subject has developed under each major schools of economic thought.

(20 Marks)

(03). Suppose that, C (consumption) =Rs. 20000 million and I (investment) =Rs. 200 million, show equilibrium national income graphically based on the concepts of circular flow of income, the withdrawal injection approach and the aggregate demand and supply approach.

(20 Marks)

(04). Explain why money is demanded under the following motives.

- a) Transaction motive
- b) Precautionary motive
- c) Speculative motive

(20 Marks)

(05). a) Distinguish between monetary policy and fiscal policy.

(10 Marks)

b) Show how monetary policy can be used to control demand full inflation.

(10 Marks)

(Total 20 marks)

(06). a) Explain the relationship between money market and product market.

(05 Marks)

b) Suppose $C=80+0.75 Y$, $I=116-2i$, $L=0.20Y-5i$ and $M=130$ where C =consumption,
 I =investment,

i = rate of interest, L =demand for money and M =money supply. Find LM and IS equations and the equilibrium rate of interest and income by solving these equations.

(15 Marks)

(07). Write short notes on the following:

a) Liquidity trap

b) Marginal efficiency of capital

c) Deficit budgetary policy

d) Marginal propensity to consume

(05 x4 =20Marks)