# University of Kelaniya - Sri Lanka

## External Examinations Branch

### Bachelor of Arts (General) Degree Third Examination (External) – 2009
### August / September 2010

## Faculty of Social Sciences

### Economics – ECON – E3015

## Macro Economics

### Answer any four (04) questions

No. of questions : 08                                                  Time : Three hours

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01. a) How do you introduce the subject of Macroeconomics?
    b) What are the main objectives of macroeconomic policy?
    c) Why Macroeconomic analysis is given an important place after 1930s?

02. Explain the differences between the Classical and Keynesians theories regarding the interest rate determination.

03. i) Distinguish differences in Fisher Equation and Cambridge Equation of the Quantity Theory of Money.
    ii) What is meant by New Quantity Theory of Money?

04. i) What is the difference between the "Cost – Push Inflation and the demand – pull Inflation?
    ii) Analyse the solutions given by the Monetarists and Keynesians to fill the inflationary gap and deflationary gap.

05. i) What is meant by Phillips Curve Analysis?
    ii) Explain the relationship between the short-term Phillips curves and the long-term Phillips curve.

06. "Keynesian theory singles out deficiency of effective demand as the major cause of unemployment." Discuss this statement comparing with the Classical theory of employment determination.

07. The IS/LM model is a macroeconomic tool that demonstrates the relationship between interest rates and real output in the goods and services market and the money market. Discuss.

08. a. Show graphically the Circular Flow of National Income in an open economy.

    b. What do you mean by the Consumption Function?

    c. Given a linear consumption function of a simple closed economy;
$$C = 50 + .8\,Y$$

        i. Define and identify the marginal propensity to consume (MPC)
        ii. Derive the savings function
        iii. Define and identify the marginal propensity to save (MPS)
        iv. Find the value for the multiplier. What is multiplier?

## Assignment

**Do you regard that the Hecksher Ohlin model of international trade goes beyond the Ricardian model?**

## Submission Date

**18.09.2010**