



University of Kelaniya – Sri Lanka

Centre for Distance and Continuing Education

Bachelor of Arts (General) Degree Third Examination (External) – 2011/2012
April/ May/ June 2014

Faculty of Social Sciences

Economics – ECON –E3015

Macroeconomics

Answer any five (05) questions

No. of questions: 09

Time : 03 Hours

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01. Describe what are the key macroeconomics objective in an economy and explain what are the possible conflicts that arise between some macroeconomic objectives.
02. (a) 'Cost - push shocks are the primary cause of inflation .' Comment critically on this statement.
- (b) How are unemployment and and inflation related to one another in the short- run and the long-run?
03. Explain what is meant by an 'inflationary gap' and explain how and why government and central bank may seek to reduce such gaps.
04. The following table summarizes some macroeconomic data of a hypothetical economy (all figures are in Rs. Millions)

Y	C	r%	I	L₁	L₂
2000	1800	10	500	500	500
3000	2600	12	400	800	400

And $M_s = 1000$

Using the data given above

- (a) Find the equilibrium level of national income
- (b) Determine the equilibrium rate of interest.
- (c) What is meant by 'Balanced Budget Multiplier'

05. (a) Define the term “monetary policy” and describe traditional tools of monetary policy.
(b) Why does monetary policy fail to moderate aggregate supply shocks?
(c) What is meant by ‘Fiscal policy’?
06. Explain how international trade can be beneficial to national economic development and comment upon the main difficulties and problems that can be experienced in this context.
07. (a) Define economic growth and explain how economic growth is measured?
(b) Briefly explain why economists are interested in measuring economic growth
(c) Describe what are the determinants of economic growth?
(d) Explain advantages and disadvantages associated with faster economic growth?
08. (a) Discuss the relationship between the budget deficit and government debt.
(b) Explain why government debt is rising explosively in some countries.
09. Write notes on **four** of the followings
- (a) Marginal propensity to consume
 - (b) Liquidity Trap
 - (c) Aggregate Demand
 - (d) Marginal efficiency of capital
 - (e) Demand – pull inflation
 - (f) Structural unemployment
