



UNIVERSITY OF RUHUNA
FACULTY OF MANAGEMENT AND FINANCE

No. of Pages : 03
No. of Questions: 05
Total Marks : 70

BACHELOR OF BUSINESS ADMINISTRATION HONOURS DEGREE

3000 LEVEL FIRST SEMESTER END EXAMINATION - AUG/SEP 2022

Three Hours

BBA 3101 - Macroeconomics

Academic Year 2021/2022

Instructions

- Answer all (05) questions.
- Calculators are permitted.

Question 01

- I. Briefly explain the terms Gross Domestic Products, Net National Product and current price. (03 marks)
 - II. Briefly explain the limitations of GDP concept. (03 marks)
 - III. Discuss the repercussions of rapid increase happened in Sri Lankan debt since 2008. (04 marks)
 - IV. Sri Lanka is facing a rapid increases in prices of goods and services with this current economic crisis. Comment on the above statement. (04 marks)
- (Total Marks 14)

Question 02

- I. Briefly explain the deflationary gap and how to remove the deflationary gap. (03 marks)
 - II. Explain the goals of monetary policy that Central Bank of Sri Lanka is targeting to achieve even during a crisis. (03 marks)
 - III. Elaborate, the quantitative instruments of monetary policy. (04 marks)
 - IV. GDP doesn't increase as much as the multiplier because of the crowding out effect. Do you agree? Justify your answer. (04 marks)
- (Total Marks 14)

Question 03

- I. Explain the three motives to hold money. (03 marks)
 - II. How does the change in interest rate affect the good market and money market? (03 marks)
 - III. Explain how does change in money demand and money supply decide the interest rate. (04 marks)
 - IV. Explain the best mix of monetary policy and fiscal policy to overcome the current Sri Lankan economic crisis using practical examples. (04 marks)
- (Total Marks 14)

Question 04

The following data are related to an open economy.

(All figures are in Rs. Million and “i” as a percentage interest rate; a 10% interest rate implies $i=10$).

Savings	200
Disposable Income	1100
Marginal Propensity Save	0.20
Government Expenditure	400
Investment function	$164-31i$
Exports	150
Import function	$50+0.10Y$
Proportional tax rate	0.4
Autonomous tax	80
Money Supply	500
Transaction Demand for money	$0.7Y$
Speculative Demand for money	$150-35i$

Based on above information;

- Assume that the price level is fixed, derive the function for the IS curve related to goods market equilibrium. **(02 Marks)**
- Assume that the price level is fixed, derive the function for the LM curve related to money market equilibrium. **(02 Marks)**
- Calculate interest rate and the level of output when goods market and money markets are simultaneously in equilibrium. **(02 Marks)**
- Find the balance of trade. **(01 Marks)**
- Prove the total leakages equal injections in equilibrium. **(01 Marks)**
- The government decided to increase the government expenditure by Rs. 124 million. What would be its effect on equilibrium income and interest rate? **(03 Marks)**
- “There is a crowding out effect, due to increase in government expenditure”. Explain this statement using diagrams. **(03 Marks)**

(Total Marks 14)

Question 05

- i. "Aggregate supply curve slopes upward in the short run". Do you agree with the statement?
Justify your answer. **(03 Marks)**
- ii. Briefly explain three benefits of international trade. **(03 Marks)**
- iii. Briefly explain the importance of Exports and Imports **(02 Marks)**
- iv. "Governments restrict international trade to protect domestic producers from competition by using three main tools. Tariffs could be identified as one of international trade restriction". Elaborate the effects of a tariff on consumer surplus, producer surplus, government revenue and total surplus using diagram. **(06 Marks)**

(Total Marks 14)
