



UNIVERSITY OF RUHUNA
FACULTY OF MANAGEMENT AND FINANCE

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

BBA 21023 – Macroeconomics

Academic Year 2022/ 2023

BACHELOR OF BUSINESS ADMINISTRATION HONOURS DEGREE

2000 LEVEL FIRST SEMESTER END EXAMINATION – AUG/ SEP 2023

Three Hours

Instructions

- This paper contains five questions.
- Answer all questions.
- Calculators are permitted

Question 01

- I. Briefly explain the concept real GDP with an example. (03 marks)
 - II. List out six limitations of calculating GDP. (03 marks)
 - III. Discuss the repercussions of excessive money printing in Sri Lankan economy. Support your answer with real examples. (04 marks)
 - IV. “The Sri Lankan government failed in implementing the Chemical Fertilizer Free Agriculture concept in 2020”. Discuss the economic impact of this concept with related to paddy cultivation in Sri Lanka. (04 marks)
- (Total Marks 14)

Question 02

- I. Briefly explain the monetary policy. (03 marks)
 - II. List out the six goals of monetary policy. (03 marks)
 - III. “An increase in aggregate expenditure through multiplier effect always cause an inflationary gap”. Briefly discuss this statement with graphical illustration. (04 marks)
 - IV. “When the Central Bank of Sri Lanka decides to decrease the reserve rate of requirements of the commercial banks, the consequences will be expanded to goods market, money market and inflation”. Discuss this policy decision of Central Bank of Sri Lanka with a graphical illustration. (04 marks)
- (Total Marks 14)

Question 03

- I. What are the other factors lie behind the downward slope of the Aggregate Demand (AD) curve other than the effects of money supply and money demand on the interest rate. (03 marks)
- II. Explain the relationship between full crowding out effect and the effectiveness of fiscal policy with graphical illustration. (03 marks)
- III. "Long term effect of political instability and corruption are significant root causes to the current Sri Lankan economic crisis". Discuss this statement with examples. (04 marks)
- IV. "An increase in production cost causes a higher inflation". Discuss this statement with suitable examples. (04 marks)
- (Total Marks 14)

Question 04

- I. Briefly explain Balance of Payment. (03 marks)
- II. Briefly explain the trade balance deficit and how a persistent trade deficit impacts the exchange rate. (03 marks)
- III. Discuss the challenges face by the Sri Lankan economy, related to the international trade. (04 marks)
- IV. What is the impact of implementing a tariffs as a protectionism policy? Explain your answer with a graphical illustration. (04 marks)
- (Total Marks 14)

Question 05

Consider an open economy characterized by the following data. All the figures are in Rs. Billion).

| | |
|---|------------|
| Savings (S) when the income is 1000 | 100 |
| Savings (S) when the income is 5000 | 1100 |
| Planned Investments (I) | $40-12i$ |
| Government Spending (G) | 210 |
| Exports (X) | 305 |
| Imports (M) | 310 |
| Tax (T) | $100+0.2Y$ |
| Transaction Demand for Money (M_t) | $0.5Y$ |
| Speculative Demand for Money (M_{sp}) | $250-5i$ |
| Money Supply (M_s) | 550 |

Note :

- "i" stands for the interest rate in percentage points
- Assume that the price level is fixed

Based on the above information, answer the following questions.

- I. Derive the function for IS curve related to goods market equilibrium. (03 marks)
- II. Derive the function for LM curve related to money market equilibrium. (02 marks)
- III. Calculate the short run equilibrium value of output and interest rate when goods market and money markets are simultaneously in equilibrium. (02 marks)
- IV. If the government increases the expenditure by Rs. 40 million, explain the impact on equilibrium value of output using a diagram. (04 marks)
- V. Alternatively, assume that the Central Bank increases the money supply of the economy by 10%, what would be the effect on the equilibrium interest rate? (Assume that there is no change to the government expenditure) (03 marks)
- (Total Marks 14)
