University of Ruhuna

**2018-2019 Academic Year-Bachelor of Arts-(General/Special) Degree, 2000 Level,
2nd Semester End Examination- August 2020
ECN 22513/ECN22613/STS2243- Intermediate Macroeconomics**

Time: Three (03) hours

Calculator are allowed

Index Number: ....

Instruction to candidates:
- *Answer **all the questions** in sub-section A in the question paper itself.*
- *Answer **only two** questions in sub-section B.*
- *Write your index number in the space provided in the answer sheet*
- *Do not spend more than $1\frac{1}{2}$ hours to answer the questions in sub-section A.*

Sub-Section: A

1) Table 01 below explains the behavioral pattern of the Business Cycles of Sri Lanka during the last decade. Answer the questions using the given information.

Table 01, Annual Groth Rate of Real GDP in Sri Lanka (2009-2018)

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Annual Groth Rate of Real GDP %	3.5	8.0	8.4	9.1	3.4	5.0	5.0	4.5	3.4	3.2

Source: Annual Report of Central Bank of Sri Lanka 2018.

Write distinguish periods forming examples to each phases of Business Cycles given below.

(a). Economic boom   1.----------------------------------- 2. --

(b). Peak   1.------------------------------------- 2. --

(c). Economic Recession   1.------------------------------------- 2. --

(d). Trough   1.-------------------------------------

(02 Marks)

1

Answers to questions from ii to iv are based on the following information.

Suppose a short-term total production function of a competitive market economy is $Q = 18N - 0.02N^2$, the demand for labour equation is ND = 300 -15W and the labour supp[ly] equation is NS = 100 + 5W. Where, N= Unit of labour and W= Wage.

    ii.   Calculate the equilibrium wage rate and level of employment in the economy.

    iii.   Calculate the Total physical production of the economy.

iv. Calculate the wage rate which equalizes the demand for labour to zero. Decompose how the volume of production is distributing among the labour and capital owners.

(02 Marks)

v. Define the two concepts: Aggregate Demand Price and Aggregate Supply Price in the Keynesian economics.

(a) Aggregate Demand Price

(b) Aggregate Supply Price

(02 Marks

The answers to questions from vi to vii are based on the following information.

Suppose the level of full employment in a hypothetical economy occurs at a Rs. 800 million of income, however, the equilibrium income in this economy is currently Rs. 700 million and MPC is 0.80. Calculate the necessary changes in the following macroeconomic policies to bring the economy to the level of full employment.

vi.   Government expenditure management policy.

(02 Marks)

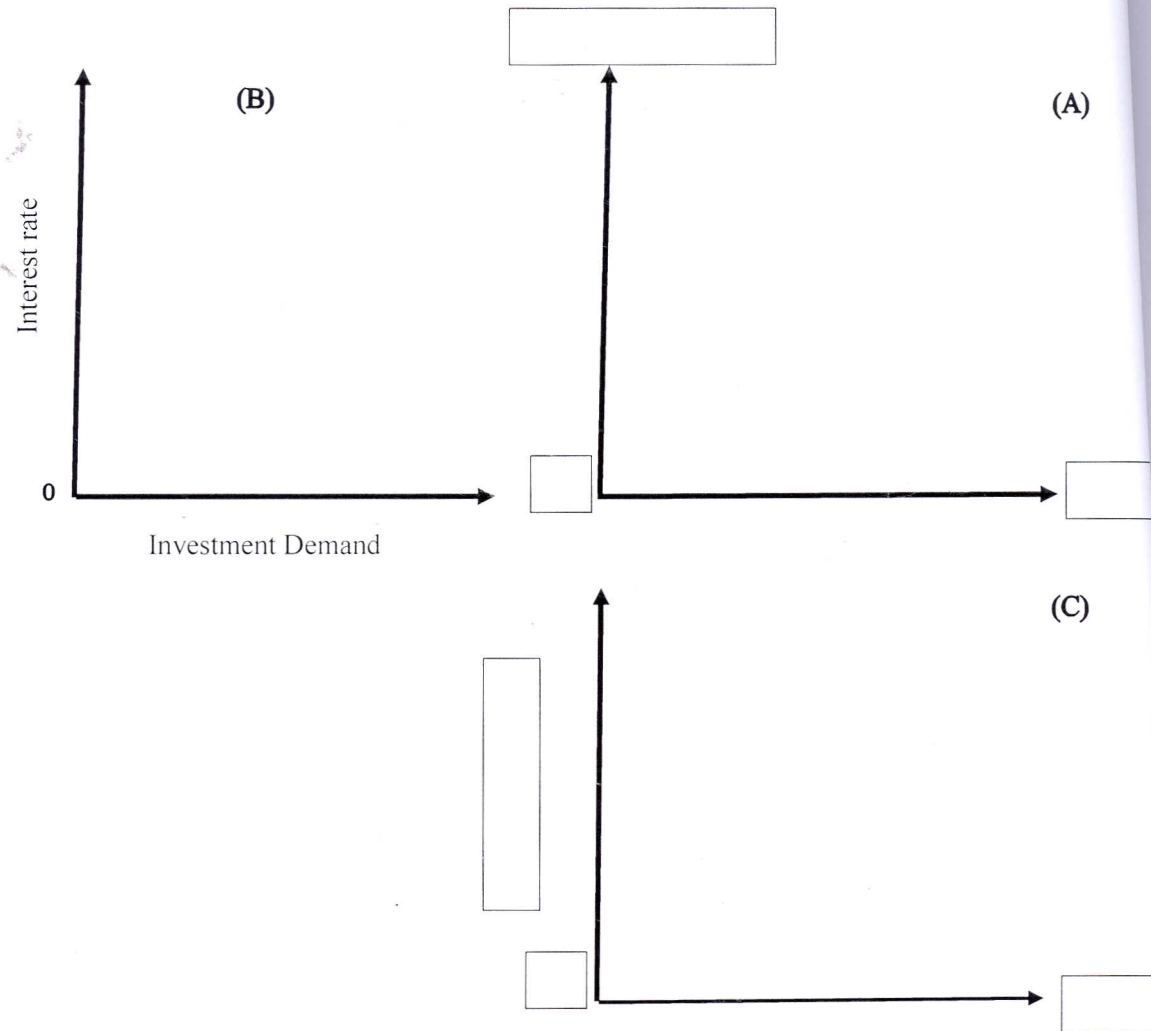vii. Government taxation policy (government taxes).

(02 Marks)

viii. Government balance budget policy.

(02 Marks)

ix. Graphically illustrate the derivation of IS curve in the ISLM model using the given space.

(02 Marks)

Figure 01, Derivation of the IS curve

(B)

Interest rate

0

Investment Demand

(A)

(C)

___The answers to questions from ix to xiii are based on the following information.___

Suppose the structure of an open economy is described with the following equations. (Y= income, i = interest rate and all autonomous data are in Rs. Million)

Private Consumption expenditure,	C	$= 100 + 0.80(Yd)$
Tax revenue;	Tn	$= 50$
Government expenditure on goods and services	G	$= 100$
Private Investment Expenditure,	I	$= 120 - 12i$
Net Exports;	Xn	$= 10 - 0.2Y$
Demand for Money;	L	$= 0.20Y - 5i$
Supply of Money;	M^S	$= 100$

6

x.   Calculate the IS equation for the economy.

                                                                              (03Marks)

xi.   Calculate the LM equation for the economy.

                                                                              (01 Marks)

xii.   Calculate the macro-equilibrium level of income.

                                                                              (02 Marks)

xiii.Fill the following cluster of cages using appropriate words or phrases in order
illustrate the dynamic mechanism of crowding out effect of increasing
government expenditure as it suggests in the ISLM model.

| An Increase in the Government expenditure					
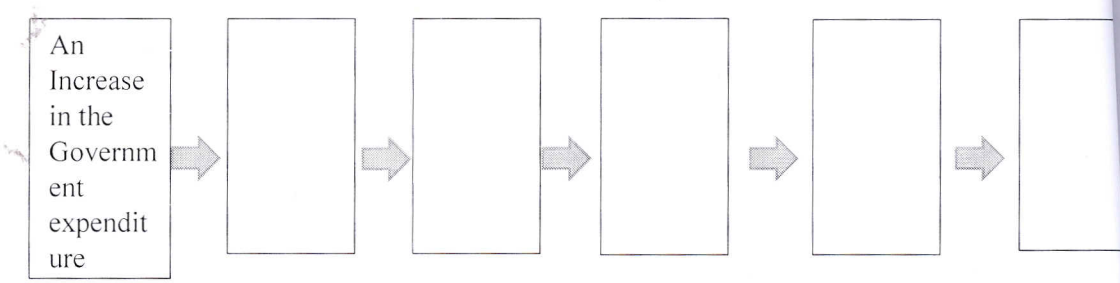
(01 Mar

xiv.   Graphically illustrate the crowding out effect of increasing the government expenditu
using ISLM framework and give necessity footnotes to explain the concept.

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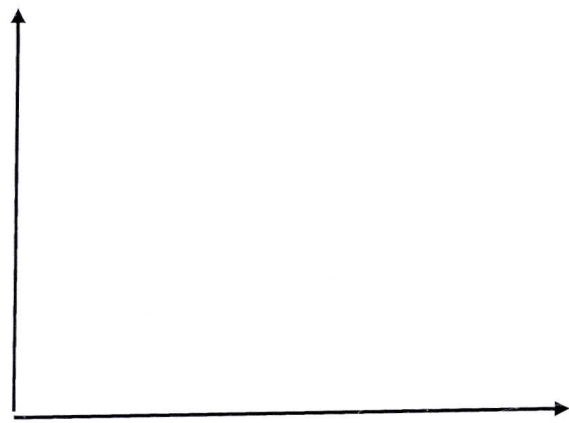
Footnotes:

(02 Marks)

8

xv. Draw an appropriate figure to explain the statement that "the magnitude of crowding out effect depends on the slope of IS curve" using ISLM framework and write the normative conclusion.
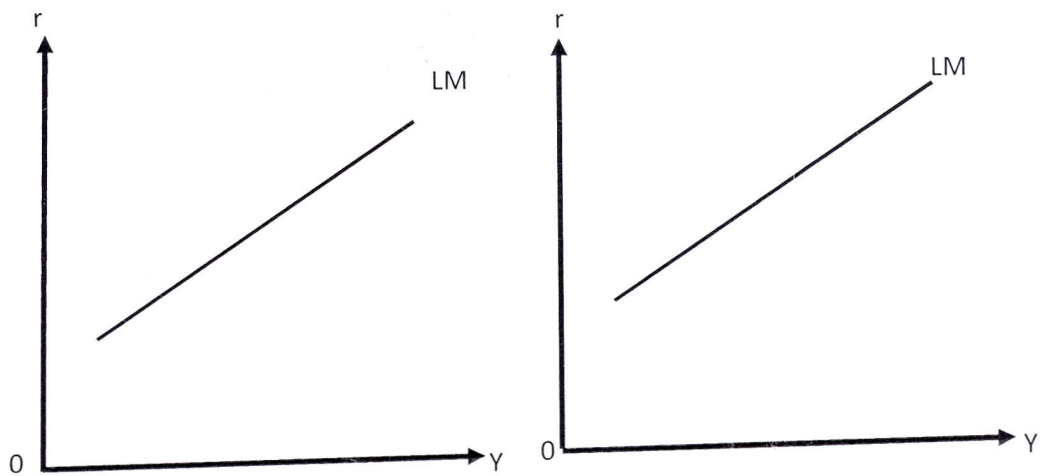
Conclusion:

(03 Marks)

Sub-Section: B
Answer only two (02) Questions

2) i. Briefly explain what are the key factors that would result in right word shift in Aggregate Demand (AD) curve?

(07 Marks)

ii. "Any increase in the output in an economy through demand simulation proposed by Keynes, may deliver only short-term benefits". Examine this statement in the light of the Keynesian and Classical Aggregate Supply Curves.

(08 Marks)

3) i. What are the reasons behind the cyclical fluctuations in economic activities according to the explanations provided by John Maynard Keynes? And what types of policies could help to bring economies out of recessionary situation according to him?

(07 Marks)

ii. "It is possible for any economy to go beyond their full employment level of output? Explain whether you agree with this statement using suitable graphs.

(08 Marks)

4) i. "An increase in the level of income of the people would create a crowding out effect on the level of private investment in an economy" Explain with the relevant graph.

(07 Marks)

ii. "The demand for money does not entirely depend on the level of income of the consumer"
Examine the validity of the above statement in the light of motives behind the demand for money.

(08 Marks)

5) Produce brief analytical notes on the impact of any **three (03)** of the following events on **Sri Lankan economy** (use the IS-LM framework or AD-AS model where applicable)
   i. The decision of the Central Bank of Sri Lanka to reduce the policy interest rates
   ii. The decision of the Sri Lankan government to reduce the Value added Tax (VAT)
   iii. Short-term economic impact of the outbreak of 'Coronavirus disease (COVID-19)'
   iv. Imposition of some items that can be produced locally.
   v. Provision of 50,000 new employment opportunities in the public sector by the government

(05 marks for each)

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