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UNIVERSITY OF RUHUNA

FACULTY OF MANAGEMENT AND FINANCE

**Bachelor of Business Administration Degree Programme 2000 Level Semester
I Examination November/December 2021**

Academic Year 2020/2021

BBA 21023 – Macroeconomics

Duration: Three hours

The Question Paper contains 05 questions.

Answer all questions

Question 01

- i. Briefly explain the three major concerns of macroeconomics. (03 Marks)
- ii. Explain the three major markets discussed in macroeconomics. (03 Marks)
- iii. Explain how the fiscal policy can revive the COVID-19 beaten economy of Sri Lanka using practical examples. (04 Marks)
- iv. The economic disturbances during recent years have created an inflationary situation in Sri Lanka. Explain the factors that caused this inflationary situation with examples. (04 Marks)

(Total Marks 14)

Question 02

- i. Briefly explain the concepts that influence the downward slope of the Aggregate Demand curve. (03 Marks)
- ii. Explain three factors that can cause a shift in the short-term Aggregate Supply curve. (03 Marks)
- iii. The Sri Lankan government budget has been at a deficit for many years. This deficit has been funded by both local and foreign borrowing. Explain the consequences of these actions. (04 Marks)
- iv. Provide viable suggestions to improve the GDP calculation of Sri Lanka (04 Marks)

(Total Marks 14)

Question 03

- i. Briefly explain three motives that create the demand for money. (03 Marks)
- ii. List the main tools used by the Central Bank to control the money supply of the economy? (03 Marks)
- iii. Explain how commercial banks create money using a suitable example (04 Marks)
- iv. In 2020, the Central Bank of Sri Lanka reduced the policy rates with the expectation of expanding the economy. Discuss the economic impacts of this decision. (04 Marks)

(Total Marks 14)

Question 04

- i. Explain three ways by which a country can benefit from international trade. (03 Marks)
- ii. Explain three advantages of protectionism. (03 Marks)
- iii. Comparative cost advantage theory is a suitable basis for international trade when compared to absolute cost advantage theory. Justify this statement. (04 Marks)
- iv. Monetary policy is ineffective in changing the national income when the Central Bank is operating a fixed exchange rate and when there is perfect capital mobility. Explain this statement with the aid of a graphical illustration. (04 Marks)

(Total Marks 14)

Question 05

Consider an open economy characterized by the following data ('i' stands for the interest rate in percentage points; a 5% interest rate implies $i=5$. All figures are in Rs. Billion).

Savings (S)	$-200+0.2(Y-T)$
Investments (I)	$150-25i$
Government expenses (G)	200
Taxes (T)	125
Exports (X)	175
Imports (M)	$65+0.05Y$
Money Demand (Md)	$Y-100i$
Money Supply (Ms)	500

- i. Assuming the price level is fixed, derive the function for IS curve related to the goods market equilibrium. (02 Marks)
- ii. Assuming the price level is fixed, derive the function for LM curve related to the money market equilibrium. (02 Marks)
- iii. Calculate the short-run equilibrium value of output and interest rate when the goods market and money market are simultaneously in equilibrium. (02 Marks)
- iv. Suppose the Central Bank increases the money supply by Rs. 300 billion. What would be the effect on the equilibrium income and the interest rate? (04 Marks)
- v. Suppose government purchases are increased by Rs. 50 billion. Is there a crowding out effect? Explain using a diagram. Consider the original LM function derived in (ii.) when you do calculations. (04 Marks)

(Total Marks 14)

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