



**UNIVERSITY OF RUHUNA**

**FACULTY OF MANAGEMENT AND FINANCE**

**Bachelor of Business Administration Degree Programme 3000 Level Semester  
I (Old Syllabus) Examination November/December 2021**

**Academic Year 2020/2021**

**BBA 3101 – Macroeconomics**

**Duration: Three hours**

**The Question Paper contains 05 questions.**

**Answer all questions**

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01.

- i. Explain three reasons to study macroeconomics? (03 Marks)
- ii. Briefly explain the main macroeconomic goals (03 Marks)
- iii. Based on the Keynesian school of thought, criticize Say's law of market. (04 Marks)
- iv. According to Jean-Baptiste Say there cannot be overproduction in the economy. Explain this statement. (04 Marks)

**(Total 14 Marks)**

02.

- i. Differentiate between Gross Domestic Product (GDP) and Gross National Product (GNP) and briefly explain the importance of GDP and GNP. (03 Marks)
- ii. Effective demand is an important concept of Macroeconomics. Explain. (03 Marks)
- iii. Explain why the Aggregate Demand (AD) curve is downward sloping. (04 Marks)
- iv. The economic disturbances during recent years have created an inflationary situation in Sri Lanka. Explain what factors cause this inflationary situation. (04 Marks)

**(Total 14 Marks)**

03. Consider an open economy which can be characterized by the following equations. ( $Y_d$  stands for disposable income and 'i' stands for the interest rate in percentage points; a 5% interest rate implies  $i=5$ . All the other figures are in Rs. Millions).

Saving function (S)	$-100 + 0.2Y_d$
Investment function (I)	$200 - 20i$
Government expenditure (G)	400
Taxes (T)	$0.3Y$
Exports (X)	130
Import function (m)	$0.06Y$
Money demand (Md)	$200 - 16i + 0.4Y$
Money Supply (Ms)	480

- i. Assuming price level is fixed, derive the function for the IS curve related to goods market equilibrium. (02 Marks)
- ii. Assuming the price level is fixed, derive the function for the LM curve related to money market equilibrium. (02 Marks)
- iii. Calculate interest rate and the level of output such that both the good market and money market are simultaneously in equilibrium. (02 Marks)
- iv. Suppose the government increases the spending by Rs. 60 million to support economic growth. Illustrate how this change will affect equilibrium income and interest rate using a diagram. (04 Marks)
- v. Explain whether there is a crowding-out effect due to the above increase in government expenditure. (04 Marks)

**(Total 14 Marks)**

04.

- i. Explain the motives that create the demand for money. (03 Marks)
- ii. Explain the quantitative instruments of monetary policy used by the Central Bank of Sri Lanka. (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 14 Marks)**

05.

- i. Explain 03 benefits of international trade. (03 Marks)
- ii. Protectionism is a strategy followed by many countries when it comes to international trade. Briefly explain protectionism with examples. (03 Marks)
- iii. Explain the concept of 'mutual absolute advantage' with an example. (04 Marks)
- iv. Comparative cost advantage theory is a suitable basis for international trade when compared to absolute cost advantage theory. Justify this statement. (04 Marks)

**(Total 14 Marks)**

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