UNIVERSITY OF RUHUNA
2015/2016 Academic Year B. A. (Special) Degree - 2000 Level
2nd Semester Examination - March 2017

ECN 22613/STS 22643 - Intermediate Macroeconomics

Answer **four (04)** questions only.

Time: 03 Hours

01. (i) "The fluctuations of marginal efficiency of Capital or expected profit rate is the fundamental factor for determining the turning points of a business cycle." (John Menard Keynes) Explain this statement making clear the assumptions necessary for it to be true.

(07 marks)

(ii) Explain the classical theory of employment and output determination using appropriate diagrams.

(08 marks)

02. (i) Explaining clear the necessary steps for it, illustrate in diagrammatic form the derivation of aggregate demand curve.

(05 marks)

(ii) Explain the factors which may influence the aggregate demand curve slopes downward from left to right.

(06 marks)

(iii) Discuss with examples, the practical importance of the aggregate demand - supply model with a flexible prices.

(04 marks)

03. The following equations describe the structure of an economy. (Think of C, I, G etc. as being measured in $ billions and i as a percentage: a 5 percent interest rate implies $i = 5$.)

Private Consumption	(C)	$= 180 + 0.8 \, Yd$
Net Tax	(Tn)	$= 100 + 0.2 \, Y$
Private Investment	(I)	$= 150 - 5i$
Government expenditure	(G)	$= 100$
Money Supply	(Ms)	$= 100$
Demand for Money	(Md)	$= 0.2Y - 10i$
Net Export	(Xn)	$= 100 - 0.14 \, Y - 10i$

(i) Find equations for IS and LM.

(03 marks)

(ii) Calculate the equilibrium income.

(02 marks)

(iii) Find the IS equations when government spending increase from 100 to 120.

(02 marks)

(iv) Calculate equilibrium income, consumption and investment when government spending is 120.

(03 marks)

(v) IS there a crowding out effect? If yes, how much?

(03 marks)

(vi) Find current account balance with a given situation of question 3 - iv.

(02 marks)

04. An open economy with flexible exchange rate and perfect capital mobility is currently operating at Macro - equilibrium in income level of $ 1000 million and 10% interest rate. However, the department of statistics in the country has estimated that the full employment output is 1500 million. The policy makers in the country seek your advice and guidance to implement the Mundell - Fleming Model to move the economy towards full employment income level with macro - equilibrium.

Write an essay using IS - LM - BP model for submitting to the policy makers to highlight the followings.

(15 marks)

(i) "In this economy fiscal policy is completely ineffective in influencing the level of national income" and

(ii) "The nations achieves internal and external balance with monetary policy only."

05. Explain the following using IS-LM model.

(i) How and why the crowding out effect occurs with increasing of the government spending?

(07 marks)

(ii) The determinants of magnitude of the crowding out effect.

(08 marks)

06. (i) Explain "the Money - multiplier Theory of Money Supply"

(09 marks)

(ii) Some data about monetary aggregate in and hypothetical economy is given below and answer the question upon them.
- Amount of high - powered money = Rs. 1000 million
- Currency held by public to deposit ratio = 40%
- Reserve ratio held by the commercial banks = 20%

Calculate the followings.

(a) Money - multiplier of the economy
(b) Total money supply of the economy
(c) Based on the answers which were given by you to the question no. (6) - ii - (a) and (b), examine the determinants of the money supply in an economy

(02 marks for each, total 06 marks)

07. Select any two out of followings and distinguish between paired concepts in each.

(i) Transaction and speculative demand for money
(ii) Aggregate demand and effective demand
(iii) Expenditure changing and expenditure switching policies

(08 marks for each, total 15 marks)

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