



**UNIVERSITY OF RUHUNA**  
**FACULTY OF MANAGEMENT AND FINANCE**

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

BACHELOR OF BUSINESS ADMINISTRATION HONOURS DEGREE

2000 LEVEL FIRST SEMESTER END EXAMINATION – AUG/SEP 2022

*Three Hours*

**BBA 21023 – Macroeconomics**

Academic Year 2021/2022

**Instructions**

- ➔ Answer all (05) questions.
- ➔ Calculators are permitted.

**Question 01**

- I. Briefly explain the terms Gross Domestic Products, Net National Product and current price. (03 marks)
  - II. Briefly explain the limitations of GDP concept. (03 marks)
  - III. “Sri Lanka defaults on debt for first time in its history”. Comment on the above statements. (04 marks)
  - IV. Some argue that Sri Lanka is in a hyperinflation situation. Do you agree? Justify your answer with causes and the effects for the current situation. (04 marks)
- (Total Marks 14)**

**Question 02**

- I. Briefly explain the deflationary gap and how to remove the deflationary gap. (03 marks)
  - II. Explain the goals of monetary policy that Central Bank of Sri Lanka is targeting to achieve even during a crisis. (03 marks)
  - III. Elaborate, how the Sri Lankan government and Central Bank of Sri Lanka can overcome the current economic crisis through managing the quantitative instruments of monetary policy. With all these instruments can there be problems in controlling the Money Supply? (04 marks)
  - IV. GDP doesn't increase as much as the multiplier because of the shape of the Aggregate Supply Curve. Do you agree? Justify your answer through an example. (04 marks)
- (Total Marks 14)**

**Question 03**

- I. Explain the three motives to hold money. (03 marks)
  - II. How does the change in interest rate affect the good market and money market? (03 marks)
  - III. The changes in the conditions on the demand and supply sides of the money market bring about in the interest rate. How does change in money demand and money supply decide the interest rate. (04 marks)
  - IV. Explain the best mix of monetary policy and fiscal policy to overcome the current Sri Lankan economic crisis using practical examples. (04 marks)
- (Total Marks 14)**

#### Question 04

The following data are related to an open economy.

(All figures are in Rs. Million and “i” as a percentage interest rate; a 10% interest rate implies  $i=10$ ).

Savings	200
Disposable Income	1100
Marginal Propensity Save	0.20
Government Expenditure	400
Investment function	$164-31i$
Exports	150
Import function	$50+0.10Y$
Proportional tax rate	0.4
Autonomous tax	80
Money Supply	₹ 500
Transaction Demand for money	$0.7Y$
Speculative Demand for money	$150-35i$

Based on above information;

- Assume that the price level is fixed, derive the function for the IS curve related to goods market equilibrium. (02 Marks)
- Assume that the price level is fixed, derive the function for the LM curve related to money market equilibrium. (02 Marks)
- Calculate interest rate and the level of output when goods market and money markets are simultaneously in equilibrium. (02 Marks)
- Find the balance of trade. (01 Marks)
- Prove the total leakages equal injections in equilibrium. (01 Marks)
- The government decided to increase the government expenditure by Rs. 124 million. What would be its effect on equilibrium income and interest rate? (03 Marks)
- “There is a crowding out effect, due to increase in government expenditure”. Explain this statement using diagrams. (03 Marks)

**(Total Marks 14)**

**Question 05**

- i. "Aggregate supply curve slopes upward in the short run".  
Do you agree with the statement? Justify your answer. **(03 Marks)**
- ii. Briefly explain three benefits of international trade. **(03 Marks)**
- iii. Briefly explain the importance of balance of payments (BOP) **(02 Marks)**
- iv. "Governments restrict international trade to protect domestic producers from competition by using three main tools. Tariffs could be identified as one of international trade restriction".  
Elaborate the effects of a tariff on consumer surplus, producer surplus, government revenue and total surplus using diagram. **(06 Marks)**

**(Total Marks 14)**

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