

**University of Ruhuna**  
**Faculty of Agriculture**  
**First Examination in B Sc in Agribusiness Management and Agriculture Resource**  
**Management and Technology (Part II)**

**Macro Economics (EC 1201) - 2020**

**SECTION II:** Answer **FOUR** questions

Duration: 1 ½ HOURS

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1. (i) Briefly explain the Four sector circular model (using the diagram). (5 marks)  
  
(ii) Consumption (C) = 310; Investment (I) = 115; Government purchases (G) = 60; Exports (X) 305; and Imports (M) 245  
  
Calculate GDP (2 marks)  
  
(iii) Consider the given consumption function to answer following questions:  
$$C = 100 + 0.85 * Y_d$$
    - (a) Calculate C if  $Y_d = 1400$  (2 marks)
    - (b) Calculate MPC (marginal propensity to consume) (2 marks)
    - (c) Calculate MPS (marginal propensity to save) (2 marks)
    - (d) Calculate APC (average propensity to consume) (2 marks)
  - (iv) Compare the three approaches of national income accounting. (10 marks)
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2. (i) Define 'Real GDP' and 'Nominal GDP'. (5 marks)  
  
(ii) Calculate the equilibrium income if the expenditure function is  $AE = 145 + 0.75Y$ .  
(Hint: draw  $45^\circ$  line for the equilibrium). Graphically illustrate your answer. (10 marks)  
  
(iii) Assess the situations of;
    - (a) A reduction in the autonomous expenditure to 100
    - (b) The Marginal Propensity to Consume (MPC) lowered to 0.5 (5 marks each)
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3. Write short notes for **FIVE** (5 marks each)
    - (a) Money market instruments
    - (b) Functions of money
    - (c) Fiscal policy
    - (d) GDP deflator
    - (e) Profit generation mechanism of commercial banks
    - (f) Types of unemployment

4. (i) Define 'Inflation'? (5 marks)
- (ii) Briefly explain 'Demand pull inflation'. (5 marks)
- (iii) List **FIVE** measures which Sri Lanka can take to overcome demand pull inflation and discuss how these measures reduce demand pull inflation. (15 marks)
5. (i) List three motives for demand for money (3 marks)
- (ii) Discuss the impacts of these motives on income level, price level, and interest rate. (6 marks)
- (iii) Briefly explain the four functions of money. (6 marks)
- (iv) Write an essay on "Role of Central Bank" giving special attention on how the Central Bank regulates the money supply in the country. (10 marks)