

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)

SECTION II: Answer Question I and *Two other questions*

Duration: 1 1/2 HOURS

Q 1. In an economy, the basic equations are as follows:

$$\begin{array}{lcl} \text{The consumption function is } C & = & 240 + 0.8Y \text{ and} \\ \text{Investment function is } I & = & 500 \end{array}$$

Find the followings.

- a) Equilibrium level of income (3 marks)
 - b) Equilibrium level of consumption (3 marks)
 - c) Equilibrium level of saving (3 marks)
 - d) Average Propensity to Consume (3 marks)
 - e) Average Propensity to Save (2 marks)
 - f) Marginal Propensity to Consume (2 marks)
 - g) Marginal Propensity to Save (2 marks)
- Q2. a) Explain the use of policies (relevant) in relations to
- changes in government spending and taxes (7 marks)
 - changes in money supply (7 marks)
- a) Describe the policy implementations problems in macroeconomics. (6 marks)
- Q3. a) Illustrate and explain the four sector circular flow model in the economy. (8 marks)
- b) Briefly explain the withdrawals and injections into the circular flow model? (6 marks)

c) Assume that the components of the national economy are as follows;

$$C=100+0.6Y, \quad I=500, \quad G=200$$

- i. Calculate the level of income in the economy. (3 marks)
- ii. Draw the graph to illustrate this economy. (3 marks)

Q4. Write short notes on any **Four**. (5 marks each)

- a) Characteristics of money
- b) Functions of commercial banks
- c) Consumer price index
- d) Liquidity trap
- e) Digital money