

Faculty of Agriculture
University of Ruhuna

First examination in BSc Agricultural Resource Management and Technology
(ARMT) and BSc in Agribusiness Management - Second Semester

Macro Economics EC 1201

Answer **FIVE** questions only

3 hours

- 1.
- Define terms '**GDP**' and '**GNP**' (10 Marks)
 - What do you mean by the term 'Value added' which is used in National Income Accounting? (20 Marks)
 - What are the methods of measuring national income? (10 Marks)
 - Briefly explain the income approach of measuring national income (20 Marks)
 - Find the values of Y, C and I using the given macro-economic model. (40 Marks)
 $Y = C + I + G$
 $C = 10 + 0.5 Y$
 $I = 20 + 0.4 Y$
 $G = 20$
- Where, Y = national income/GDP
I = Investment expenditure
C = consumption expenditure
G = Government expenditure
- 2.
- Describe functions of Money (40 Marks)
 - How do you categorize key characteristics of money in relation to functions of money? Explain (60 Marks)
- 3.
- Define '**Consumption function**' (10 Marks)
 - Derive the savings function from consumption function (10 Marks)
 - Assume a macro economy based on the following equations (values given in Rs. Millions)
 $C = 20 + 0.5 Y_d$
T = 50
G = 100
TR = 60
- Where, C – Consumption expenditure
G – Government expenditure
TR- Transfer payments
Y_d – Disposable income
T – Taxes

- a. Calculate the equilibrium national income (20 Marks)
- b. Calculate the multiplier (20 Marks)
- c. Using savings equation, calculate the value of savings (20 Marks)
- d. If government increases taxes by 2% what will be the new equilibrium income (20 Marks)
- 4). i. What are the types of unemployment? (20 Marks)
- ii. Describe and illustrate relationship between inflation and unemployment (40 Marks)
- iii. Propose practical strategies to reduce unemployment in Sri Lanka. (40 Marks)
- 5). Under the equilibrium point of money and product market,
 IS Equation, $Y = 200 - 3000i$,
 LM Equation, $Y = 2000i$,
- i. Calculate the equilibrium interest rate and equilibrium national income (20 marks)
- ii. At money market:
 Speculative demand for money (M_{sp}) is $600 - 1000r$,
 Transaction demand for money (M_t) is $0.5y$,
 Money supply (MS) is 600,
- a. Derive the LM Curve by using graphical method. (20 Marks)
- b. What will happen to the LM curve, when money supply decreases 600 to 400?
 Show this by using graphs and above equation. (30 Marks)
- iii. Illustrate the changes of general equilibrium using two graphs when,
- a. IS curve shift upward
- b. LM curve shift downward. (30 Marks)
- 6) Central Bank is the authoritative institution on Monetary policy in Sri Lanka. Explain the statement with examples. (100 Marks)
- 7) Write short notes on any **Four**. (25 Marks each)
- i. Demand Pull inflation
- ii. Circular flow of diagramme in macro economy
- iii. Digital banking
- iv. Non income determinants of consumption and savings
- v. Demand for Money
- vi. Net Present Value (NPV) and Internal Rate of Return (IRR)

- END -