UNIVERSITY OF RUHUNA
FACULTY OF AGRICULTURE
Examinations

First Examination (Part II) in
BSc Hons in Agricultural Resource Management and Technology
BSc Hons in Agribusiness Management

EC12201 Macro Economics (Compulsory)

Paper info.	**Theory** **Total number of Questions: 15** **Number of Pages: 2**	**INSTRUCTIONS** Answer PART I and TWO questions from PART II. Only non-programmable calculators are permitted. Mobile phones are NOT permitted.
Duration	**2 (two) Hours**	
Index No.		**Date:** June 24, 2026

PART I

1) Draw the four-sector circular flow model. (04 marks)
2) What are the three approaches used to calculate the GDP? (03 marks)
3) Explain the poverty line. (03 marks)
4) What are the necessary conditions for economic growth? (04 marks)
5) Briefly explain three measures to ensure better income distribution in a country. (06 marks)
6) The consumption function has given as C = 1800 + 0.7 Yd; Y = 12,000; Transfer payment = 6000; Tax = 8000. Calculate the following.
   a) Marginal Propensity to Consumption (MPC) (01marks)
   b) Marginal Propensity to Save (MPS) (02 marks)
   c) Consumption (03 marks)
   d) Average Propensity to Consumption (APC) (02 marks)
   e) Multiplier (02 marks)

7) The nominal interest rate is 7% where the inflation rate is 4%. Calculate the real interest rate. (01 mark)

8)
   a) List two (02) economic transactions that are recorded as Credit Transactions (+) in Sri Lanka's Balance of Payments. (02 marks)
   b) Briefly explain the macroeconomic meaning of a "Current Account Surplus." (03 marks)

9) Briefly explain the two main functions of the Central Bank of Sri Lanka. (05 marks)
10) What are the phases of business cycle? (04 marks)
11) Briefly explain the use of fiscal policy in regulating chronic inflation in a country. (05 marks)

(50 marks)

PART II

Answer **TWO** questions only.

12)

a) Briefly explain types of unemployment. (05 marks)

b) "Unemployment is an illness in the macroeconomy." Comment on this statement. (10 marks)

c) Explain strategies to overcome the unemployment burden in a developing country like Sri Lanka. (10 marks)

13)

a) What is foreign exchange rate? (02 marks)

b) List the determinants of foreign exchange rate. (04 marks)

c) Explain home currency quotation and foreign currency quotation with examples (04 marks)

d) Explain the free-floating exchange rate management mechanism with suitable illustrations (15 marks)

14)

a) SANASA Development Bank (SDB) is a licensed specialized bank in Sri Lanka that plays a pivotal role in supporting the island's agricultural economy, particularly providing financial facilities to tea smallholders and private tea factories in the Nuwara Eliya and Ratnapura districts.

For the financial year ending 31st December 2025, the bank reported the following operational data:

- Total Customer Deposits: 8,000 Million LKR
- Total Loans & Advances Issued: 6,000 Million LKR
- Average Interest Rate paid to Depositors (Deposit Rate): 7% per annum
- Average Interest Rate charged to Tea Sector Borrowers (Lending Rate): 14% per annum
- Net Fee, Commission, and Other Operating Income (Non-Interest Income): 120 Million LKR
- Corporate Income Tax Rate: 30%

Using the provided financial data, calculate the following metrics for SDB bank:

i) The Interest Spread (%) (05 marks)

ii) Total Interest Income (II) and Total Interest Expenditure (IE) (in Million LKR) (05 marks)

iii) Net Profit after Tax (in Million LKR) (05 marks)

b) "The digital era has completely transformed how individuals and businesses manage their money on a day-to-day basis." Discuss this statement by evaluating how digital banking and electronic payment methods have replaced traditional cash transactions in Sri Lanka. (10 marks)

15)

a) Explain the key features of money. (08 marks)

b) Explain the main functions of money. (08 marks)

c) "Money was not invented all at once, but rather evolved step-by-step as human civilizations required safer, lighter, and more convenient ways to trade." Explain the evolution of money from its earliest form to the modern digital era. (09 marks)