



**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 2025

*Three Hours*

**BBA 21023 - Macroeconomics**

Academic Year 2024/2025

**Instructions**

- ➔ Answer all (05) questions.

**Question 01**

- I. List out **three** approaches by which the national income can be determined. (03 Marks)
  - II. Briefly explain **three** main economic concerns in relation to Sri Lanka. (03 Marks)
  - III. After COVID-19, Sri Lanka faced a severe economic crisis that had a massive negative impact on the people.  
Discuss how the **interconnection among the five criteria** for judging economic outcomes in macroeconomics - equity, efficiency, growth, full employment, and price stability has contributed to this crisis. (04 Marks)
  - IV. "Sri Lanka's economic challenges have been partly attributed to overreliance on foreign debt." Do you agree with this statement? Justify your answer with examples from the Sri Lankan context. (04 Marks)
- (Total Marks 14)**

**Question 02**

- I. List three important aspects of effective demand. (03 Marks)
  - II. Briefly explain any three functions carried out by the Central Bank of Sri Lanka. (03 Marks)
  - III. The Quantity Theory of Money explains that an increase in the money supply does not always lead to a rise in the real output of the economy.  
Discuss this statement with reference to **Classical Dichotomy** and **Monetary Neutrality**. (04 Marks)
  - IV. "Many households in Sri Lanka, especially during economic crises, sometimes spend more than their monthly income by using past savings or borrowing."  
Based on this situation, explain the concept of dissaving using the relationship between consumption and savings. Illustrate your answer with a graph showing income, consumption, savings, and the dissaving region". (04 Marks)
- (Total Marks 14)**

### Question 03

- I. List out the three other factors that explain the downward slope of the Aggregate Demand (AD) curve, other than money supply and money demand effect on interest rate. (03 Marks)
- II. Explain the concept of **liquidity trap** and illustrate it with a diagram. (03 Marks)
- III. During the post-COVID-19 period in Sri Lanka, rapid price increases have reduced the real output. Using a suitable graphical illustration, elaborate on how rising prices may lead to lower real output in an economy. (04 Marks)
- IV. "Even though an increase in money supply usually leads to a corresponding rise in money demand, this did not happen in Sri Lanka during the period of excessive money printing after COVID-19".

Discuss the reasons with reference to the post-COVID-19 economic conditions in Sri Lanka. (04 Marks)

(Total Marks 14)

### Question 04

- I. List out six advantages of international trade that can help a country like Sri Lanka overcome an economic crisis. (03 Marks)
- II. Briefly explain the effects of currency depreciation on imports, exports, and the trade balance. (03 Marks)
- III. Sri Lanka has faced severe exchange rate volatility in the post-COVID-19 period, and adopting a fixed exchange rate system rather than a floating rate could bring stability to the economy.  
Elaborate this statement with examples from the Sri Lankan context. (04 Marks)
- IV. During the post-COVID-19 period, Sri Lanka experienced severe economic issues, largely due to a shortage of foreign currency reserves needed to pay for imports. Some argue that this was a deeper macroeconomic problem linked to foreign exchange management and trade imbalances.

Discuss the above statement in relation to the economic concerns of post-COVID-19 period in Sri Lanka. (04 Marks)

(Total Marks 14)

**Question 05**

Consider an open economy characterized by the following data. All the figures are in Rs. billions.

Savings (S) when the income is 3000	600
Savings (S) when the income is 7000	1600
Planned Investment (I)	$80-12i$
Government Spending (G)	420
Exports (X)	330
Imports (M)	510
Tax (T)	$200+0.2Y$
Transaction Demand for Money ( $M_t$ )	$0.6Y$
Speculative Demand for Money ( $M_{sp}$ )	$2190-3i$
Money Supply ( $M_s$ )	2550

Note:

- "i" stands for the interest rate in percentage points
- Assume that the price level remains fixed.

Based on the above information, answer the following questions.

- I. Derive the function for the IS curve related to the goods market equilibrium. (03 Marks)
- II. Derive the function for the LM curve related to the money market equilibrium. (02 Marks)
- III. Calculate the short-run equilibrium value of output and interest rate when the goods market and money markets are simultaneously in equilibrium. (02 Marks)
- IV. If the government increases the expenditure by Rs. 200 billion, explain the impact on the equilibrium value of output using a diagram. (04 Marks)
- V. Alternatively, assume that the Central Bank increases the money supply of the economy by 20%. What would be the effect on the equilibrium interest rate? (Assume that there is no change to the government expenditure). (03 Marks)

**(Total Marks 14)**

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