

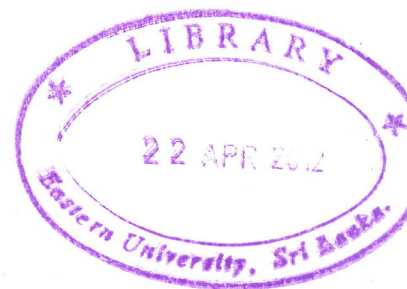
**EASTERN UNIVERSITY, SRI LANKA.**  
**FIRST YEAR SECOND SEMESTER EXAMINATION IN AGRICULTURE 2012**  
**AEC: 1201 INTRODUCTORY MACRO ECONOMICS**

**REPEAT PAPER**

Answer **ALL** questions

Time allowed: 2 Hours

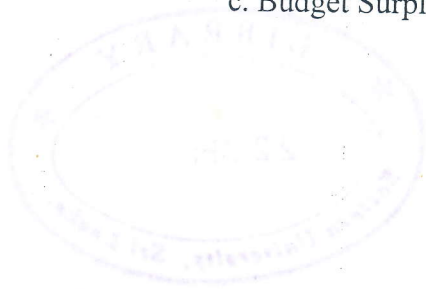
1. a. Briefly explain the importance of Macroeconomics.
  - b. Graphically illustrate the “Circular Flow” of National Income and Expenditure model with government sector.
  - c. Suppose planned consumption equals  $50 + 0.80Y_d$ ;  $I = 80$ ; and if there is no government sector. ( $Y_d$  = Disposable income,  $I$  = Investment)
    - i. Derive an equation for the savings function.
    - ii. Find the equilibrium level of income.
2. a. Explain and differentiate Nominal GDP and Real GDP.
  - b. Assume that there are only two goods produced in an economy. Using the following data calculate Real and Nominal GDP for 1990 and 2008. (Assume 1990 as the base year)



Goods produced	1990		2008	
	Quantity	Price (Rs.)	Quantity	Price (Rs.)
Good X	30	40	25	55
Good Y	35	24	54	50

- c. Write the consumption function and explain the variables in it.
- d. Graphically illustrate the Aggregate Demand and Aggregate Supply curves.

3. a. Explain the Gross National Product and state how it differs from Gross Domestic Product.
  - b. Briefly explain Fiscal Policy and Monetary Policy.
  - c. Graphically illustrate Inflationary and Deflationary Gap.
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4. Write **SHORT NOTES** on the following.
    - a. Taxes,
    - b. Investment Expenditure, and
    - c. Budget Surplus and Budget Deficit



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