EASTERN UNIVERSITY, SRI LANKA.

FIRST YEAR SECOND SEMESTER EXAMINATION IN AGRICULTURE 2010

AEC: 1201 INTRODUCTORY MACRO ECONOMICS

Answer ALL questions

Time allowed: 2 Hours

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1. a. Briefly discuss the importance of Macroeconomics.

   b. Graphically illustrate the "Circular Flow" of National Income and Expenditure model with government sector.

   c. In a two sector model, suppose households receive the following compensation from business: Wages Rs. 520, 000, Interest Rs. 30, 000, Rent Rs. 10, 000, Profits Rs. 80, 000; Consumption spending is Rs. 550, 000 and Business investment is Rs. 90, 000. Answer the following:

      i. Find the Market value of output and household savings, and

      ii. What is the relationship between saving and investment?

   d. Find the Net National Product for a private sector model from the following data: Consumption Rs. 850, 000; Gross investment Rs. 100, 000; Depreciation Rs. 40, 000; Household compensation Rs. 910, 000.

2. a. Explain the terms "Budget Surplus" and "Budget Deficit".

   b. Graphically illustrate the "Aggregate Demand" and "Aggregate Supply" curves.

   c. When C= 40, 000 +0.8Yd, I= 60, 000, G= 40, 000,

   Yd= Y- Tx - tY + Tr with Tx= 50, 000 and t= 0.1.

   Where C= Consumption, Yd= Disposable income, I= Investment,

   G= Government expenditure, Tx= Taxes, Tr= Government transfers,

   t= income tax rate

      i. Find the Equilibrium level of income;

ii. If there is a reduction in the income tax rate to 0.08, find the new equilibrium level of income and the net tax revenue.

3. a. Graphically illustrate the Business Cycle.

b. Briefly explain Fiscal Policy and Monetary Policy.

c. Explain the objectives of Fiscal Policy in developing countries.

4. Explain and differentiate the following (Using suitable examples if necessary).

i. Direct and Indirect taxes

ii. Induced Investment and Autonomous Investment

iii. Real GNP and Nominal GNP

iv. Inflationary Gap and Deflationary Gap