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EASTERN UNIVERSITY, SRI LANKA.
FACULTY OF COMMERCE AND MANAGEMENT
DEPARTMENT OF ECONOMICS

SECOND YEAR SECOND SEMESTER EXAMINATION IN BBA/ BCOM 2011/2012
(AUGUST/SEPTEMBER 2014) (PROPER)

ECN2033 MACRO ECONOMICS

Answer all Questions

Time 3 Hours

1. (i) What is meant by Macro Economics? (04 Marks)
- (ii) Briefly explain the Macro Economic objectives. (08 Marks)
- (ii) Identify the policies of a government which is used to influence the macro economy of a country. (08 Marks)
- (Total 20 Marks)**

2. (i) Suppose that an economy is in equilibrium of

$$C = 50 + b(Y - 50 - tY + Gr)$$

$$I = 100$$

$$G = 50$$

$$Gr = 25$$

$$X = 10$$

$$M = 5 + 0.1Y$$

$$b = 0.8$$

$$t = 0.25$$

- (a) Find out national income at equilibrium level. (04 Marks)
- (b) Find out the foreign trade multiplier. (04 Marks)
- (c) How much additional government expenditure will be required to increase the equilibrium level of national income by Rs. 50/-? (04 Marks)
- (d) At equilibrium, does the economy has trade deficit or trade surplus? And by how much? (04 Marks)
- (ii) Drive the balance budget multiplier with examples. (04 Marks)

(Total 20 Marks)

3. (i) Briefly explain the determinants of consumption. (04 Marks)
- (ii) What is meant by the "ratchet effect"? (04 Marks)
- (iii) Suppose a 20 – year old person expects to live 50 years more, but only to work for 30 of those years. He expects to earn Rs. 20,000 each year. Ignoring interest and find the following
- a. Life time income (04 Marks)
 - b. Life time consumption, (04 Marks)
 - c. Savings and accumulation for future. (04 Marks)

(Total 20 Marks)

4. (i) Define inflation? (04 Marks)
- (ii) Distinguish between Demand pull and cost push inflation. (08 Marks)
- (iii) Why must governments give priority to the control of Inflation? (08 Marks)

(Total 20 Marks)

5. Briefly explain the following
- (i) Cash Reserve Ratio (05 Marks)
 - (ii) Balance of Payments (05 Marks)
 - (iii) Devaluation of currency (05 Marks)
 - (ii) Fixed exchange rate system and floating exchange rate system. (05 Marks)

(Total 20 Marks)