EASTERN UNIVERSITY, SRI LANKA

SECOND YEAR SECOND SEMESTER SPECIAL DEGREE EXAMINATION IN ECONOMICS – (2015/2016) – 2014/2015 Batch

(September 2018)

ECS 2251 ENGLISH FOR ECONOMICS-II

Index No. :.. Time: 01 hour

Instructions to the candidates:

1. Answer all the questions on the paper itself.
2. Marks will be deducted for wrong spellings and grammar.
3. Read each question carefully and answer them.
4. This paper consists of 7 (Seven) pages.
5. Write your index No. clearly in the space given.

For Examiner's use only

Question Number	Maximum Marks	Marks obtained
1	15	....
2	15	....
3	20	....
	....	....
	50	
	....	....

Q1: Read the following text and answer the questions that follow:

The United States and all other modern industrial economies experience signific swings in economic activity. In some years, most industries are booming a unemployment is low; in other years, most industries are operating well below capac and unemployment is high. Periods of economic prosperity are typically call expansions or booms; periods of economic decline are called recessions or depressio The combination of expansions and recessions, the ebb and flow of economic activi is called the business cycle.

Business cycles as we know them today were codified and analyzed by Arthur Bur and Wesley Mitchell in their 1946 book Measuring Business Cycles. One of Burns a Mitchell's key insights was that many economic indicators move together. During expansion, not only does output rise, but also employment rises and unemployme falls. New construction also typically increases, and inflation may rise if the expansi is particularly brisk. Conversely, during a recession, the output of goods and servic declines, employment falls, and unemployment rises; new construction also declines. the era before World War II, prices also typically fell during a recession (i.e., inflati was negative); since the 1950s prices have continued to rise during downturns, thou more slowly than during expansions (i.e., the rate of inflation falls). Burns and Mitch defined a recession as a period when a broad range of economic indicators falls fo sustained period, roughly at least half a year.

Just as there is no regularity in the timing of business cycles, there is no reason w cycles have to occur at all. The prevailing view among economists is that there is level of economic activity, often referred to as full employment, at which the econo could stay forever. Full employment refers to a level of production in which all t inputs of the production process are being used, but not so intensively that they w out, break down, or insist on higher wages and more vacations. When the economy is full employment, inflation tends to remain constant; only if output moves above below normal rate of inflation systematically tend to rise or fall. If nothing disturbs economy, the full-employment level of output, which naturally tends to grow as t population increases and new technologies are discovered, can be maintained forev There is no reason why a time of full employment has to give way to either inflationary boom or a recession.

Business cycles do occur, however, because disturbances to the economy of one sor another push the economy above or below full employment. Inflationary booms can generated by surges in private or public spending. For example, if the governm spends a lot to fight a war but does not raise taxes, the increased demand will cause only an increase in the output of war matériel, but also an increase in the take-home of defense workers. The output of all the goods and services that these workers wan buy with their wages will also increase, and total production may surge above normal, comfortable level. Similarly, a wave of optimism that causes consumers spend more than usual and firms to build new factories may cause the economy expand more rapidly than normal. Recessions or depressions can be caused by th same forces working in reverse. A substantial cut in government spending or a wave pessimism among consumers and firms may cause the output of all types of goods fall.

Another possible cause of recessions and booms is monetary policy. The Federal Reserve System strongly influences the size and growth rate of the money stock, and thus the level of interest rates in the economy. Interest rates, in turn, are a crucial determinant of how much firms and consumers want to spend. A firm faced with high interest rates may decide to postpone building a new factory because the cost of borrowing is so high. Conversely, a consumer may be lured into buying a new home if interest rates are low and mortgage payments are more affordable. Thus, by raising or lowering interest rates, the Federal Reserve is able to generate recessions or booms.

This description of what causes business cycles reflects the Keynesian or new Keynesian view that cycles are the result of nominal rigidities. Only when prices and inflationary expectations are not fully flexible fluctuations in overall demand cause large swings in real output. An alternative view, referred to as the new classical framework, holds that modern industrial economies are quite flexible. As a result, a change in spending does not necessarily affect real output and employment. For example, in the new classical view a change in the stock of money will change only prices; it will have no effect on real interest rates and thus on people's willingness to invest. In this alternative framework, business cycles are largely the result of disturbances in productivity and tastes, not of changes in aggregate demand. The empirical evidence is strongly on the side of the view that deviations from full employment are often the result of spending shocks. Monetary policy, in particular, appears to have played a crucial role in causing business cycles in the United States since World War II. For example, the severe recessions of both the early 1970s and the early 1980s were directly attributable to decisions by the Federal Reserve to raise interest rates. On the expansionary side, the inflationary booms of the mid-1960s and the late 1970s were both at least partly due to monetary ease and low interest rates. The role of money in causing business cycles is even stronger if one considers the era before World War II. Many of the worst pre-war depressions, including the recessions of 1908, 1921, and the Great Depression of the 1930s, were to a large extent the result of monetary contraction and high real interest rates. In this earlier era, however, most monetary swings were engendered not by deliberate monetary policy but by financial panics, policy mistakes, and international monetary developments.

(Source: http://www.aspirantszone.com/reading-comprehension-economy-based-bank-po/)

1. Which of the following is TRUE in the context of the passage?
   a) Boom in an economy can be caused by cutting down the government expenditure.
   b) Central bank is solely responsible to bring a boom/ recession in the economy by changing the interest rates.
   c) Full employment level of output can be maintained in an economy forever.
   d) After World War II the inflation rates fell but didn't become negative as compared to before World War II.

      A) Both b) and c)
      B) Both b) and d)
      C) Both c) and d)
      D) Only b)

2. In a perfect scenario of "full employment" what can cause a business cycle to occur?
   a) A wave of optimism among consumers and producers.
   b) When government expenditure exceeds its income.
   c) When government income exceeds its expenditure or reduction in government spendings.
   d) Pessimism among government officials.
      A) All of these
      B) Both a) and b)
      C) Both b) and c)
      D) All a), b) and c)
      E) Only b)

3. Prewar depressions, including the one of 1908,1921 and great depression of 1930s was the result of which phenomena?
   A) increase in money supply
   B) decrease in money supply
   C) rise in real interest rates.
   D) both A) and B)
   E) both B) and C)

4. What theory does the alternative view or classical view hold?
   A) Modern economies are rigid.
   B) Change in spending does not necessarily change output and employment.
   C) both A) and B)
   D) Business cycles are the result of changes in aggregate demand
   E) both B) and D)

5. How does the monetary policy affect the spending habits of public? influences the size and growth rate of money stock and eventually the rates of interests.
   A) In case of high interests, a firm may postpone its decision to build a factory.
   B) Monetary policy stances adopted by the central bank can throw an economy into expansion or depression.
   C) Monetary policy affects magnitude of the money supply in the economy.
   D) All of these.

(5 X 3 = 15 Marks)

Q2 **Read the following advertisement and prepare a letter of application (cover letter) for the post advertised.** **(15 Marks)**

VACANCY
QUALITATIVE ANALYSIST
Knowledge in analyzing data in the economical background.
No experience needed / Fresh graduates can also apply / A 'B' pass in GCE (O/L) is must
Age: Maximum 30 years
Closing Date: 30.10.2018
Apply to:
AZA DATA ANALYSISTS
35, 3RD CROSS,
MUNAI STREET,
BATTICALOA.
Salary: 45,000 / Month

Q3: Imagine that your lecture hall allocation on Mondays and Wednesdays is no conducive for the lectures. Write an email to the Coordinator, Discipline o Economics, Faculty of Arts & Culture, EUSL about the lack of facilities in th lecture halls. Send a copy to the Dean, Faculty of Arts & Culture, EUSL. D not mention your name.

(20 Mark