



FIRST EXAMINATIONS IN BACHILOR OF COMMERCE
(EXTERNAL) – 2011/2012
HELD IN APRIL / MAY 2013

BCOM 14 (II) – MACRO ECONOMICS

Answer all Questions

Duration: **03 hours**

(1) Briefly explain the following concepts

- (i) Autonomous Consumption
- (ii) Inflation and Deflation
- (iii) Goods Market and Money Market
- (iv) Microeconomics and Macroeconomics
- (v) Say's law of market
- (vi) Marginal Propensity to Save
- (vii) Fundamental law of consumption
- (viii) Three Sector Model
- (ix) Autonomous investment and Induced investment
- (x) Unemployment, and Underemployment.

(2. ~~1~~ x10=20 Marks)

02.

- (i) Differentiate macro economics from micro economics?
(04 Marks)
- (ii) Briefly explain the problems in achieve macroeconomic objectives?
(06 Marks)
- (iii) What are the major objectives of macro economics? Analyze each objectives using data for last years in Sri Lanka
(10marks)

03. What do you mean by inflation? (05 Marks)

Elucidate the impact of inflation. (07 Marks)

Explain the measures to control inflation. (08 Marks)

(04) (a) Complete the following diagram

<u>Y</u>	<u>C</u>	<u>S</u>	<u>APC</u>	<u>ΔY</u>	<u>ΔC</u>	<u>MPC</u>
0	40	-----	-----	-----	80	0.8
100	-----	-20	1.2	100	-----	0.8
-----	200	0	1.0	-----	80	0.8
300	-----	-----	0.93	100	80	-----
400	360	40	-----	100	-----	0.8

(08 Marks)

(b) The details related with an open economy are given to you.
(All values are in million)

Income	600	MPC	0.8
Budget deficit	30	Exports	50
Imports	60	APS	0.1
Investment	50	Tax	60

Find the following ,

(i) If government increases total national production as 1010M, what is the total amount of the government expenditure?

(06 Marks)

(ii) When private investment falls to 80%, how will it change the national income?

(06 Marks)

05.

(a) i. What is meant by IS curve?

(03 Marks)

ii. What is meant by LM curve?

(03 Marks)

iii. What do you understand from the IS – LM Equilibrium?

(02 Marks)

iv. Explain the impact of monetary expansion in IS – LM Equilibrium?

(02 Marks)

(b) The following equations are related with a closed economy without government interference.

(All data are in million rupees)

$$\text{Consumption function (C)} = 100 + 0.8y$$

$$\text{Investment function (I)} = 150 - 6r$$

$$\text{Demand function of money (L)} = 0.2y - 2r$$

$$\text{Money Supply} = 150$$

Find out the Following

i. IS equation (02 marks)

ii. LM equation (02 Marks)

iii. General Equilibrium level of income and rate of interest (02 Marks)

iv. Consumption and investment in General Equilibrium level of income. (02 Marks)

v. Draw IS, LM Curves in a graph (02 Mark)