Uva Wellassa University
Faculty of Animal Science & Export Agriculture
BSc. in Export Agriculture

End Semester Examination January / February 2016
Year III Semester II

Macroeconomics (EAG 329-2)

Instructions

Answer all questions. Each question bears equal marks

No. of questions	: Four (04)
No. of pages	: Five (05)
Total marks allocated	: 100%
Time	: Two hours (2 hrs)

Question 1

1.1 Comment on the following statements

a. One of the biggest economic problems of any recession is a rise in unemployment rate

b. Cost push inflation is from the production side rather than from the consumption side.

c. Crowding-out effect shows that increased government spending cause to reduce the private sector spending.

d. Frictional unemployment does not last long.

Question 2

2.1 Distinguish between

a. GDP and GNP

b. Gross Investment and Net Investment

c. Short Run Aggregate Supply and Long Run Aggregate Supply

17

2.2 Consider an economy that produces and consumes bread and automobiles. Following table gives the data for two different years.

	Year 2000	Year 2014
Price of an automobile	Rs. 5,000,000	Rs. 6,000,000
Price of a loaf of bread	Rs. 10	Rs. 20
Number of automobiles produced	100	120
Number of loaves of bread produced	500,000	400,000

a. Using year 2000 as the base year, compute the following statistics for each year

i. Nominal GDP

ii. Real GDP

iii. GDP Deflator

b. Explain what has happened to the prices between year 2000 and year 2014 using GDP deflator

2.3

a. What does the Consumer Price Index (CPI) measure?

b. Does increase in the CPI always indicate an increase in the Consumer's cost of living?

Question 3

3.1 According to the IS-LM model, what happens to the interest rate, income, consumption & investment under the following circumstances? Support your answer with suitable illustrations;

a. The Central Bank increases the money supply

b. The government increases government purchases

c. The government increases taxes

d. The government increases government purchases and taxes by equal amounts simultaneously

3.2 Consider a hypothetical economy;

Consumption; $C = 200 + 0.75 (Y - T)$

Investment; $I = 200 - 25i$

Government Purchases; $G = 100$

Taxes; $T = 100$

Money Demand; $(M/P)^d = Y - 100i$

Money Supply; $M^s = 1000$

Price; $P = 2$

a. Derive the equation for IS curve and LM curve.

b. What is the equilibrium level of income & interest rate?

c. Suppose the government purchases are raised from 100 to 150. How much does the IS curve shift? What is the new equilibrium level of income & interest rate?

d. With the initial values for monetary and fiscal policy, if the price levels rise from 2 to 4, what is the new equilibrium level of income & interest rate?

Question 4

4.1 What is a "Balance of Payment Statement?"

4.2 Use the data given below to measure a country's Balance on Merchandise Trade, Balance on Capital account and Balance of Payment

The United States exports goods valued at $ 19,650

The United States imports merchandized valued at $ 21,758

U.S citizens receive interest income of $ 3,621 from foreign investments

Interest income of $ 1,364 is paid on foreign owned assets in the United States

U.S citizens travel expenditures equal $ 1,919

Foreign travel in the United States is $ 1,750

U.S. Unilateral transfers are $ 2,388

U.S. Capital outflow is $ 4,174

U.S. Capital inflow is $6,612

4.3 Suppose in a two sector economy,

Consumption; $C = 60 + 0.8Y$

Investment; $I = 70$

a. Find the equilibrium output level.

b. Find the new equilibrium output level when,

i. Investment expenditure increases by 10

ii. MPC = 0.75

4.4 Following information is given with regard to a Hypothetical economy;

Consumption; $C = 100 + 0.8Y$

Investment; $I = 900$

Government Spending; $G = 840$

Transfer Payments; $TR = 175$

Income tax rate; $t = 0.275$

Exports; $X = 100$

Imports; $M = 0.1Y$

a. Find the equilibrium level of income.

b. Find the net export at the equilibrium level of income.

c. Find the equilibrium level of income when investment increases to 1000.

d. Calculate the multiplier.