

**Uva Wellassa University
B.Sc. in Export Agriculture**



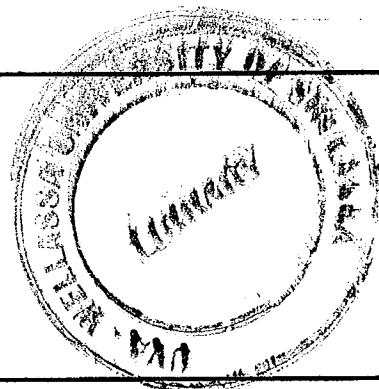
**End Semester Examination June/July 2010
Year III Semester II**

Macroeconomics EAG 329-2

Instructions

Answer **all** questions. All questions bear equal marks.

- No. of questions : Four (04)
- No. of pages : Four (04)
- Total marks allocated : 100%
- Time : Two Hour (2 hrs)



Question 01

- a. Show from national income accounting that
 - i. An increase in taxes (while transfers remain constant) must imply a change in net exports, government purchases or the saving investment balance
 - ii. An increase in disposable personal income must imply an increase consumption or an increase in saving
 - iii. An increase in both consumption and saving must imply and increase in disposable income
- b. Distinguish between
 - i. GDP and NDP
 - ii. Gross Investment and Net Investment
 - iii. Government Budget Surplus and Government Budget Deficit
- c. The following is information from the national income accounts for a hypothetical country

GDP	\$6,000
Gross investment	800
Net investment	200
Consumption	4,000
Government purchases of goods and services	1,100
Government budget surplus	30

What is

- i. NDP?
- ii. Net exports?
- iii. Government taxes minus transfers?
- iv. Disposal personal income?
- v. Personal saving?

Question 02

- a. Define the followings;
 - i. Aggregate Supply.
 - ii. Inflation.
 - iii. Unemployment.
- b. Explain how the aggregate supply and Phillips curves are related to each other.
- c. Briefly explain
 - i. IS schedule
 - ii. LM schedule
- d. The following equation describes an economy. (Think of C, I, G, etc., as being measured in billions and i as a percentage; a 5% interest rate implies $i = 5$.)

$$C = 0.8(1 - t)Y$$

$$t = 0.25$$

$$I = 900 - 50i$$

$$\bar{G} = 800$$

$$L = 0.25Y - 62.5i$$

$$\bar{M}/\bar{P} = 500$$

- i. What is the equation that describes the IS curve?
- ii. What is the equation that describes the LM curve?
- iii. What are the equilibrium levels of income and interest rate?
- iv. What is the value of α_G which corresponds to the simple multiplier with taxes?
- v. By how much does an increase in government spending of $\Delta\bar{G}$ increase the level of income in this model, which includes the money market?

- vi. By how much does a change in government spending of $\Delta \bar{G}$ affect the equilibrium interest rate?
- e. What is a liquidity trap? If the economy is stuck in one, would you advise the use of monetary or fiscal policy

Question 03

- a.
 - i. What is a balance of payments statement?
 - ii. Use the data given below to measure a country's **Balance on Merchandize 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 **\$3621** from foreign investments

Interest income of **\$1394** is paid on foreign owned assets in the United States

U.S. citizens travel expenditures equal **\$1919**

Foreign travel in the United States is **\$1750**

U.S. unilateral transfers are **\$2388**

U.S. Capital Outflow is **\$4174**

U.S. Capital Inflow is **\$6612**

- b. The shape of BP curve generally depends on capital mobility between countries. Comment on this.
- c. Discuss the effectiveness of monetary and fiscal policies under fixed exchange rate system and flexible exchange rate system when there is.
 - i. An increase in money supply
 - ii. An increase in government spending



Question 04

- a. Prove that the real wage is equal to the marginal physical product of labor
- b. Differentiate between real wage and nominal wage
- c. What is the market demand and supply of labor
- d. What is meant by sticky wages