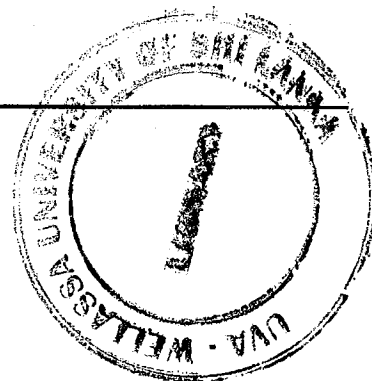


Uva Wellassa University
Faculty of Animal Science & Export Agriculture
BSc in Export Agriculture



End Semester Examination August/September 2014
Year III Semester II

Macroeconomics EAG 329 -2



Instructions

Answer all the questions

No. of questions : Five (05)
No. of pages : Five (05)
Time : Two hours (02 hrs)
Total marks allocated: 100%

Question 01

State whether the following statements are TRUE or FALSE giving reasons.

- I. The use of spending and taxing to alter macroeconomic outcomes is known as Fiscal policy.
- II. Expansionary Fiscal policy decrease the budget deficit
- III. An increase in AD leads to increased GDP, economic growth but danger of demand-pull inflation.
- IV. Monetary policy is ineffective when consumers or banks do not behave as expected.
- V. Frictional unemployment is when people are losing their jobs due to a recession.
- VI. If the MPC is 0.8, the marginal propensity to save will be 0.2.
- VII. The rate of interest is the opportunity cost of holding money.
- VIII. If investment is very responsive to changes in the interest rate, the IS curve will be relatively flat.
- IX. The percentage of the labor force that is unemployed is known as labor force rate
- X. The most disadvantage of any recession is a rise in inflation rate.

(20 marks)

Question 02

- I. Discuss critically GDP as a measure of economic welfare. (08 marks)
- II. What is National Income? (03 marks)
- III. Consider an economy that produces and consumes bread and automobiles. Following table gives the data for two different years.

	Year 2006	Year 2012
Price of an automobile	Rs. 50,000	Rs. 60,000
Price of a loaf of bread	Rs. 12	Rs. 22
Number of automobiles produced	80	100
Number of loaves of bread produced	600,000	500,000

Using the year 2006 as the base year, compute the following statistics for each year:

- a. Nominal GDP
- b. Real GDP
- c. The implicit price deflator for GDP

(03 marks × 03)



Question 03

- I. You are given following information on a hypothetical economy (all values are in million rupees).

$$C = \$100 + 0.80Y_d$$

$$I = \$150 - 6i$$

$$NT = 0.25Y$$

$$G = \$100$$

$$L = 0.20Y - 2i \text{ (Demand for money)}$$

$$M_s = \$150 \text{ (Real money supply)}$$

- a. What is the equation of IS curve? **(03 marks)**
 - b. What is the equation of LM curve? **(03 marks)**
 - c. Find simultaneous equilibrium income and interest rate for the goods and money market. **(03 marks)**
- II. Discuss the effect of an expansionary fiscal policy on the rate of interest & the level of private investment. Identify the crowding out effect in this context. **(05 marks)**
- III. Some economists suggest that a monetary expansion is needed. Do you agree? Explain. **(06 marks)**

Question 04

- I. Balance of Payments data of United States for year 2005 is shown below. All figures are in billions of dollars.

	Credits	Debits
Goods exports	+40	
Goods imports		-30
Service exports	+15	
Service imports		-10
Net investment income		-5
Net transfers	+10	
Foreign purchases of assets in the U.S	+10	
U.S. purchases of assets abroad		-40
Official reserves	+10	

Calculate

- a. The Balance of Trade.(03 marks)
 - b. The Balance of Current Account.(03 marks)
 - c. The Balance of Capital Account.(03 marks)
 - d. Does United States have a Balance of Payment deficit or surplus? Explain.
(03 marks)
- II. "The international trade is operated through the exchange rate system as a medium of settling international transaction"
- a. What is Fixed Exchange Rate? (02 marks)
 - b. Discuss the economic effects of an appreciation in the exchange rate on the Sri Lankan manufacturing sector.(06 marks)

Question 05

- I. Define unemployment. **(03 marks)**
- II. Outline the causes of frictional, structural and cyclical unemployment. **(06 marks)**
- III. What is Hyperinflation?**(03 marks)**
- IV. Discuss the difficulties of controlling Inflation. **(08 marks)**

