

Uva Wellassa University
B.Sc. in Export Agriculture

End Semester Examination June/July 2009
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 : Two (02)
Total marks allocated : 100%
Time : Two Hour (2 hrs)



1. Distinguish between the following;
 - a. Real GDP and Nominal GDP.
 - b. Consumer Price Index (CPI) and GDP deflator.
 - c. Current Account and Capital Account.
 - d. Inflation and Deflation.
 - e. Nominal Interest Rate and Real Interest Rate.

2.
 - a. Write short notes on the following;
 - i. Transmission mechanism.
 - ii. Liquidity trap.
 - iii. Crowding out effect.
 - b. Discuss, using the IS-LM model, what happens to interest rate as prices change along a given AD schedule.
 - c. Find simultaneous equilibrium income for goods and money market when

$$C = 100 + 0.80yd$$

$$I = 150 - 6i$$

$$G = 100$$

$$L = 0.20yd - 2i$$

$$M = 150$$

3.

a. Discuss the short run relationship between the unemployment and inflation.

b.

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**

4. Discuss the reasons and private sector and public sector solutions for global economics meltdown.