

BSc in Export Agriculture
Third Year Second Semester Examination – December/January 2016/17

Macroeconomics (EAG 329-2)
Section II – Essay Questions

Instructions:

Answer **all** questions.

No. of questions : Three (03)

No. of pages : Two (02)

Time : One (01) hour

Total marks allocated : 60%

1.

- (I) Define the followings;
- a) Inflation.
 - b) Unemployment. (10 marks X 2 = 20 marks)
- (II) What is meant by natural unemployment? (10 marks)
- (III) Explain the relationship between unemployment & inflation rate using the Phillip's Curve (20 marks)
- (IV) Briefly describe the types of inflation (30 marks)
- (V) The most disadvantage of any recession is a rise in unemployment rate'. Comment on this statement. (20 marks)

2.

- (I) Briefly explain using equations and graphical illustrations where necessary
- a) IS curve
 - b) LM curve (20 marks X 2 = 40 marks)
- (II) Discuss, using the IS-LM model, what happens to interest rate as prices change along a given AD schedule. (40 marks)

- (III) 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 $i = 5$.)

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

$$t = 0.25$$

$$I = 900 - 50i$$

$$\bar{G} = 800$$

$$L = 0.25Y - 62.5$$

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

- a) What is the equation that describes the IS curve?
- b) What is the equation that describes the LM curve?
- c) What are the equilibrium levels of income and interest rate?
- d) What is the value of α_G which corresponds to the simple multiplier with taxes? (5 marks X 4 = 20 marks)

3. Write short notes on four of the followings;

- (I) The transmission mechanism
- (II) Liquidity Trap
- (III) Crowding Out Effect
- (IV) Aggregate Supply
- (V) Business Cycle
- (VI) Budget Deficit (25 marks X 4 = 100 marks)

[End of the Section II]