

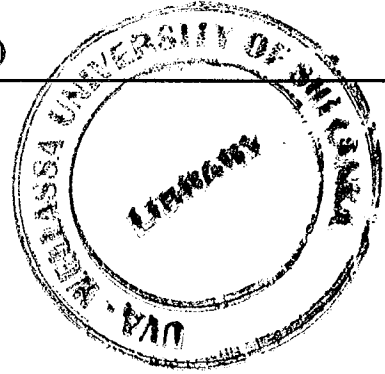
Uva Wellassa University
Faculty of Animal Science & Export Agriculture



**Uva Wellassa
University**

BSc in Export Agriculture
End Semester Examination September/October 2012

Year III Semester II
Macroeconomics (EAG 329 -2)



Instructions

Answer all the questions

No. of questions : Five (05)
No. of pages : Four (04)
Time : Two hours (02 hrs)
Total marks allocated: 40/100

01.

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

- I. Increase in nominal GDP always result in increases in real GDP.
- II. The GDP gap is negative when real GDP exceeds potential GDP.
- III. Increases in a positive GDP gap are associated with increases in the unemployment rate.
- IV. Okun's law specifies that there is cyclical unemployment of 2% when real GDP is 4% below potential GDP.
- V. Fiscal policy refers to any change in government tax revenue and/or in government spending.
- VI. If the demand for money becomes more sensitive to changes in interest rates, the *LM*-curve becomes steeper.
- VII. Inflation initiated by an increase in aggregate demand is referred to as demand-pull inflation.
- VIII. Employment tends to rise when aggregate output rises.

02.

I.

- a. Describe the difference between **frictional** unemployment and **structural** unemployment.
- b. What is a natural rate of unemployment?
- c. 'The most disadvantage of any recession is a rise in unemployment rate'. Comment on it.

II. What is a **liquidity trap**? If the economy was stuck in one, would you advise the use of monetary or fiscal policy?

03.

I. Show from national income accounting that

- a. An increase in taxes (while transfers remain constant) must imply a change in net exports, government purchases, or the saving investment balance.
- b. An increase in disposable personal income must imply an increase in consumption or increase in saving.
- c. An increase in both consumption and saving must imply an increase in disposable income.

II. Suppose $I = \$70$, $C = \$60 + 0.80 Y_d$, $Y_d = Y$

- a. Find the equilibrium level of income.
- b. Find the equilibrium level of income when there is a \$10 increase in autonomous planned investment (planned investment increases from \$70 to \$80).
- c. Establish the multiplier effect of the \$10 increase in autonomous spending.

05.

I.

- a. Define Balance of Payment.
- b. Explain **five** measures you would recommend to overcome the **deficit in BOP**.
- c. Briefly discuss the **benefits** of keeping **fixed exchange rate** system by the Central Bank.

II. United States Balance of Payments data for year 2003 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.
- b. The Balance of Current Account.
- c. The Balance of Capital Account.
- d. Does United States have a Balance of Payment **deficit or surplus**? Explain.