



**BSc in Export Agriculture**  
**Third Year First Semester Examination –June/ July 2017**

**Macroeconomics (EAG 332-2)**  
**Section I – Structured Questions**

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**Instructions:**

Answer all questions in the given space.

No. of questions : Two (02)

No. of pages : Twelve (12)

Time : One (01) hour

Total marks allocated : 40%

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1.

(I) Define the following terms (10 marks)

a) Actual Expenditure

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b) Planned Expenditure

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(II) “Planned expenditure is a function of Income Y.”

a) . Derive an equation for planned expenditure in for a three sector closed economy. (5 marks)

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a) Graphically show the relationship between planned expenditure and income (15 marks)

(III) What is meant by “Keynesian Cross”? (5 marks)

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(IV) Graphically show an increase in government purchases in “Keynesian Cross”?  
(15 marks)

(V) The following information from the national income accounts for a hypothetical country:  
(10 marks)

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- GDP – Rs.8000
  - Gross investment Rs.850
  - Net investment Rs.250
  - Consumption Rs.4000
  - Government purchase of goods and services Rs.1150
  - Government budget surplus Rs.50
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Find the followings;

a) NDP

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b) Net Exports

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c) Government taxes minus transfers

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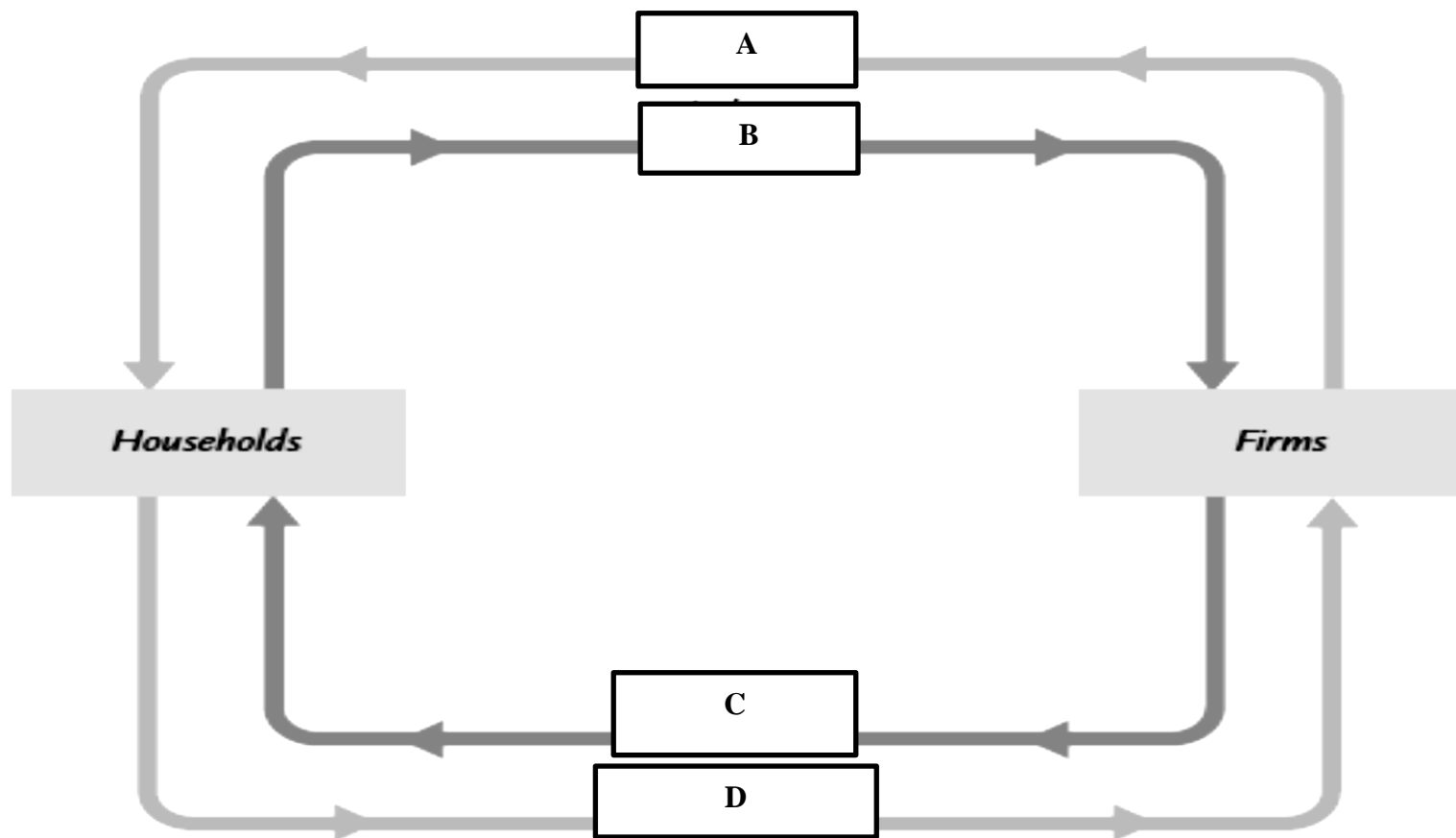
d) Disposable personal income

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e) Personal savings

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(VI) Given below is a Simple (private sector) Model of Circular Flows



Identify A,B,C and D

(10 marks)

A

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B

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C

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D

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(VII) Draw the following in the given diagram in part (VI)

(30 marks)

- a) Private Sector Model of Circular Flows with Financial Market
- b) Model of Circular Flows with Government Sector
- c) Model of Circular Flows with Government and Foreign Sector (open economy)

2. “The key macroeconomic difference between open and closed economies is that, in an open economy, a country’s spending in any given year need not equal its output of goods and services.”

(I) What is meant by;

(9 marks)

- a) Small Open Economy

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b) Perfect Capital Mobility

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c) Real Interest Rate?

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(II) What is the key assumption in a small open economy? (3 Marks)

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(III) Based on the above assumption, when do capital inflow and capital outflow occur? (4 marks)

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(IV) What are the four components of expenditure on an open economy's output? (4 marks)

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(V) With help of above four components, derive an equation for net capital outflow (10 Marks)

(VI) Using the equation derived in 2 (V) state when we have (8 marks)

a) Trade surplus

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b) Trade deficit

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(VII)

- a) At the world interest rate, if savings exceed investment, what happens to the trade balance? (4 marks)

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- b) Graphically show the above condition? (10 marks)

(VIII)

- a) What is the result on trade balance if a fiscal expansion occurs at home in a small open economy? (3 marks)

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b) Graphically show the above effect

(10 marks)

c) Graphically show the effect of a fiscal expansion abroad on the small open economy

(10 marks)

(IX)

- a) List three effects that an outward shift in the invest demand schedule have on a small open economy at the world interest rate

(3 marks)

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- b) Graphically show the above effect

(10 marks)

(X) Define the followings; (6 marks)

a) Nominal Exchange Rate

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b) Real Exchange Rate

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(XI) What are the determinants of nominal exchange rate? (3 marks)

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(XII) What is the major determinant of real exchange rate? (3 marks)

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**[End of the Section I]**