

BSc in Export Agriculture
Third Year Second Semester Examination –December/ January 2017/ 2018

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

Instructions:

Answer all questions in the given booklet.

No. of questions : Three (03)

No. of pages : Two (02)

Time : One (01) hour

Total marks allocated : 60%

01. Write short notes on the followings;

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|--|------------|
| (I) Potential Output and Actual Output | (25 marks) |
| (II) Monetary Policy | (25 marks) |
| (III) Fiscal Policy | (25 marks) |
| (IV) Liquidity Trap | (25 marks) |

02.

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|---|------------|
| (I) Define the IS curve. | (25 marks) |
| (II) If interest rate is , derive a formula for IS curve. | (25 marks) |
| (III) Derive the IS curve graphically. | (25 marks) |
| (IV) Comment on the slope of the IS curve. | (25 marks) |

03. “The *LM* schedule, or *money market equilibrium schedule*, shows all combinations of interest rates and levels of income such that the demand for real balances is equal to the supply. Along the *LM* schedule, the money market is in equilibrium”

- (I) The following formula gives the LM curve

$$i = \frac{1}{h} \left(kY - \frac{\bar{M}}{\bar{P}} \right)$$

Identify each term in the formula. (25 marks)

- (II) Comment on the slope of the curve. (25 marks)
- (III) Graphically derive the LM curve. (25 marks)
- (IV) Graphically derive the Aggregate Demand Schedule using IS – LM equilibrium. (25 marks)

[End of Section II]