



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

**Macroeconomics (EAG 329-2)**  
**Section I – Structured Questions**

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**Instructions:**

Answer **all** questions.

No. of questions : Two (02)

No. of pages : Ten (10)

Time : One (01) hour

Total marks allocated : 40%

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1.

(I) Define; (05 marks X 2 = 10 marks)

a) Aggregate Demand (AD)

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b) Aggregate Supply (AS)

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(II) What are the components of AD? (10 marks)

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(III) What is meant by unplanned inventory investments? (10 marks)

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(IV) What do the firms do if; (05 marks X 2 = 10 marks)

a) Excess inventory accumulates

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b) Output is below AD

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(V) If the aggregate income is  $Y$ , derive an equation for equilibrium output in the economy (10 marks)

(VI)

a) What is meant by multiplier? (05 marks)

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b) What is the effect of income taxes on multiplier? (05 marks)

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(VII) How do you graphically show the effect of a change in fiscal policy (eg: an increase in government expenditure) on the AD? (10 marks)

(VIII) Use the data for country X to compute the following.

(02 marks X 5 = 10 marks)

<b>Item</b>	<b>Amount (billions of \$)</b>
Consumption expenditure ( <i>C</i> )	600
Taxes ( <i>Tax</i> )	400
Transfer Payments ( <i>TR</i> )	250
Exports ( <i>X</i> )	240
Imports ( <i>I</i> )	220
Government expenditure on goods and services ( <i>G</i> )	200
Gross Investments ( <i>I</i> )	150
Depreciation ( <i>Depr</i> )	60

a) GDP

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b) Net investment

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c) Net exports

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d) After-tax investment

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e) Savings

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(IX) Distinguish between real GDP and nominal GDP (10 marks)

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(X) The following table gives data for country Z

Year	Quantity (000)	Price (Rs)
2005	100	150
2006	80	200

a) Calculate nominal GDP in each year (4 Marks)

b) Calculate real GDP in each year based on the 2005 prices (4 marks)

c) What is the GDP deflator

(2 marks)

2. **“The balance of payments (BOP)** is the record of the transactions of the residents of a country with the rest of the world”

(1)

a) BOP is divided into three categories (accounts). Name them. (06 marks)

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b) What should be included in those accounts? You are required to provide 2 examples for each (04 marks)

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c) What should be the value of BOP theoretically? (10 marks)

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d) When does a country have a BOP surplus? (05 marks)

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e) When does a country have a BOP deficit? (05 marks)

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f) How do you enter the following transactions in the BOP?

(5 marks X 2 = 10 marks)

Transaction	Sign
Any transaction resulting in a payment to foreigners	
Any transaction resulting in a receipt from foreigners	

g) A Sri Lankan citizen buys a \$600 laptop computer from an Indian company, and the Indian company deposits the \$600 in its account at X bank in London. How do you record this transaction in the Sri Lankan BOP accounts? (10 marks)

(II)

a) Define the followings? (05 marks X 3 = 15 marks)

i. Foreign exchange rate

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ii. Flexible exchange rate

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iii. Fixed exchange rate

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b) What is meant by; (05 marks X 2 = 10 marks)

i. Depreciation of currency

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ii. Appreciation of currency

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c)

i. When do we have a favorable BOP? (05 marks)

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ii. How does it affect the exchange rate? (05 marks)

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iii. As a result of the above situation (i and ii), does the external value of domestic currency appreciate or depreciate? (05 marks)

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iv. If the BOP is in disequilibrium, what kind of an exchange rate position will the country have? (05 marks)

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v. As a result of the above situation (iv), does the external value of domestic currency appreciate or depreciate (05 marks)

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**[End of the Section I]**