



University of Sri Jayewardenepura  
Faculty of Humanities and Social Sciences

Bachelor of Arts First Year Second Semester Examination – January/ February 2018  
Economics

ECON 1210.3/ECON 1210 -Principles of Macroeconomics

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Time allowed: Three hours (03)

Answer any five (05) questions.

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1.
  - i. Explain the scope and the importance of Macroeconomics? (06 Marks)
  - ii. What are the macroeconomic objectives, policy and policy instruments? (10 Marks)
  
2.
  - i. Distinguish between intermediate and final goods and services? (04 Marks)
  - ii. Explain the importance of national accounts statistics. (05 Marks)
  - iii. What are the recent initiatives in national accounts estimates of Sri Lanka? (07 Marks)
  
3. Suppose you have the following information about a closed economy.  
(Figures in Rs. million)  
 $C = 50 + 0.80Y_d$   
 $I = 200$   
 $G = 100$   
 $T = 50$ 
  - i. Determine the equilibrium national income of this economy. (03 Marks)
  - ii. What is the savings at the equilibrium national income? (03 Marks)
  - iii. Suppose government expenditure ( $G$ ) increases to Rs. 125 million.  
What is the new equilibrium level of income? (03 Marks)
  - iv. When the equilibrium national income is Rs. 2200 million, what is the value of investment expenditure ( $I$ )? (03 Marks)
  - v. Calculate government expenditure and tax multipliers. (04 Marks)

4. i. Define different types of unemployment. (06 Marks)  
ii. What are the consequences of unemployment in an economy? (10 Marks)

5. i. Define the terms inflation, disinflation and core inflation. (05 Marks)  
ii. What is the Keynesian view of inflation? Explain using a graph. (05 Marks)  
iii. What are the motives of demand for money? Explain. (06 Marks)

6. i. What is meant by money supply?  
ii. What are the factors that determine the money supply?  
iii. What are the objectives of money policy?  
iv. Explain how a change in money supply affects interest rate.

(04 Marks for each)

7. Explain four (04) of the following concepts.

- i. The circular flow of national income for simple economy
- ii. The process of credit creation by the commercial banks.
- iii. Okun's law
- iv. High powered money
- v. Saving and Investment
- vi. Per capita income

(04 Marks for each)