



**University of Sri Jayewardenepura**  
**Faculty of Humanities and Social Sciences**

Bachelor of Arts First Year Second Semester Examination – January/March, 2019

Economics

**ECON 1210.3 / 1210.03 / 1210A – Principles of Macroeconomics**

Answer Five (05) questions only.

1. i) What is Macroeconomics? (02 marks)
- ii) What is the importance of Macroeconomics? (04 marks)
- iii) Name and briefly explain about macroeconomic objectives. (10 marks)
2. i) What is Gross Domestic Product? How is it different from national income? (04 marks)
- ii) Distinguish between national income and household income. (06 marks)
- iii) Explain the circular flow of national income for simple economy. (06 marks)
3. Consumption schedule of a hypothetical economy is as shown below (Figures are in Rs. Million).

Yd	C
1000	900
3000	2500

- i). Construct the consumption and Saving equations for this economy. (06 marks)
- ii). If  $I = 100$ ,  $G = 50$ ,  $NT = 25$ , What is the equilibrium income level of this economy. (04 marks)
- iii). “The equilibrium level of national income is not necessarily equal to the full employment level national income” Explain this statement. (06 marks)

4. i) What are the functions of money? (04 marks)
- ii) How does rapid inflation affect the performance of the functions of money? (06 marks)
- iii) Explain about the process of money creation with hypothetical example. (06 marks)
5. i) What are the casual factors of inflation? (08 marks)
- ii) Discuss in brief the likely impact that an inflationary situation can have on various macroeconomic variables. (08 marks)
6. i) Explain the components of money supply (M4) and monetary base and construct the money multiplier. (10 marks)
- ii) "Rise in the rate of interest leads to decrease in the demand for money" Explain. (04 marks)
- iii) What are the objectives of central bank? (02 marks)
7. Describe four concepts from following.
- i). Per capita income
  - ii). Phillips curve
  - iii). Natural unemployment
  - iv). Price concept in national income estimation
  - v). Balance of payment

(04 marks each)

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