



University of Sri Jayewardenepura
Faculty of Humanities and Social Sciences

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

ECON 2210.03 – Intermediate Macroeconomics

Time: Three (3) Hours

Answer **five (5)** questions. 80 marks allocated for the final exam and 20 marks for the Continuous Assessment.

1. Comparatively discuss the consumption theories of relative, absolute and permanent income. (16 marks)

2. (i) What is mean by the IS curve? (02 marks)
(ii) Derive the IS curve. (06 marks)
(iii) Explain the impact of following factors on the slope of the IS curve by using graphs.
 - a) Increase in the marginal propensity to consume (MPC)
 - b) Increase in the marginal propensity to tax (MPT)(08 marks)

3. (i) Define the crowding out effect and explain the situations that it can be zero. (08 marks)
(ii) Explain the process of movement from above and below disequilibrium positions to equilibrium positions in the IS- LM model. (08 marks)

4. (i) Derive the equation and the curve of money market equilibrium (08 marks)
(ii) “Increase in the money supply and income sensitivity of money demand will equally impact on the LM curve”. Explain this statement by using suitable graphs. (08 marks)

5. Following are the figures of integrated market (IS-LM). All figures are in Rs. Millions.

$$C = 100 + 0.8Y_d$$

$$MD_T = 0.4Y$$

$$I = 150 - 12r$$

$$MD_S = -8r$$

$$G = 50$$

$$M_r = 200$$

$$T = 0.25Y$$

$$(M_r = \frac{M}{P}, \quad i = r)$$

- (i) Calculate the equilibrium national income and interest rate in this economy? (06 marks)
- (ii) Calculate the impact of the following situations to the equilibrium national income and interest rate.
- a) Increase in the private investments by Rs. 100 millions
- b) Decrease in the real money supply by Rs.50 millions (06 marks)
- (iii) Explain the above (i) and (ii) parts by using graphs. (04 marks)
6. (i) Distinguish between the inflationary gap and recessionary gap. (04 marks)
- (ii) "Long run aggregate supply curve (LRAS) takes perfectly inelastic shape because of the impact of inflationary and recessionary gap." Are you agree with this statement? Explain. (06 marks)
- (iii) Derive the aggregate demand curve and list down the factors that effect to shift the curve. (06 marks)
7. Analyze the efficiency of money and fiscal policy when interest sensitivity of investment is low and interest sensitivity of money demand is high by using the IS-LM model. (16 marks)