



University of Sri Jayewardenepura
Faculty of Humanities and Social Sciences

Bachelor of Arts Third Year Second Semester Examination - Jan/Feb/March 2019

Economics

ECON 3210.03/3215 Advanced Macroeconomics

Three hours (03) only.

This question paper carries **70** marks.

Non-programmable calculators are allowed

This question paper consists of Six sections namely section **1, 2, 3, 4, 5, and 6.**

Instructions for selecting questions are given in each section.

Section One. Definitions, (10 Marks)

1. Define any **five** the following
 - a. Market clearing model
 - b. Monetarism
 - c. Taylor rule
 - d. Ricardian equivalence
 - e. Model
 - f. Foreign Trade Multiplier

Section Two. Comparisons. (10 Marks)

2. Differentiate between any five pair of the following words/concepts
 - a. Rules and discretion
 - b. Variables in Harrod - Domar model and variables in Solow model
 - c. Steady state and full employment
 - d. Foreign trade multiplier and balanced trade multiplier
 - e. Positive analysis and normative analysis
 - f. Dollarization and fixed exchange rate

3. Explain the relationships between **five** of the following pair of words/concepts.
- Samuelson's Model of Multiplier Accelerator Interaction model and Hicksian Theory
 - Is-LM model and Mundell-Fleming model
 - Currency union and currency board
 - Crawling band and crawling peg
 - Post-Keynesians and new Keynesians
 - Monetarisms and new classical economics

Section Four. Mathematical questions. Answer any two questions. (10 Marks)

- 4.1 Exchange rate between Euro and US dollar is $0.90 \text{ €} = \text{US\$}$ and exchange rate between US\$ and Swiss Franc is $1.20 \text{ US\$} = \text{Swiss Franc}$. Find the exchange rate between € and Swiss Franc in € per Swiss Franc
- 4.2 Mathematically show the relationship between exchange rate and equation of exchange.
- 4.3 Derive the Cobb-Douglas production function based on per capita labour

Section Five, Short answers questions. (10 Marks) Answer any two questions.

- 5.1 Do you think that economics is worthy of awarding Nobel Prize? If yes, why? Briefly explain.
- 5.2 Explain roots of macroeconomics
- 5.3 What are the factors to be taken into account when an exchange rate is selected for a small economy like Sri Lanka?

Section Six. Analytical questions. Answer any two questions. (20 Marks)

- 6.1 Why Keynes is known as the father of macroeconomics? Explain
- 6.2 What are the failures of monetarism? Explain in terms of Sri Lankan experience.
- 6.3 "During the recent past, exchange rate in Sri Lanka depreciated". Explain the possible reasons behind this situation.
- 6.4 "Even if there are many theories of trade cycles, majority is based on investment" Do you agree with this expression. Explain.