

Bachelor of Management Studies (Honors) Degree
 Programme
 The Open University of Sri Lanka
 Level: 04
 MCU2207/MSU4507/AFU4507: Macro Economics
 Assignment Test – August 2023
 Duration – Two (02) hours



DATE: 20 .08. 2023

TIME: 9.30 a.m. – 11.30 a.m.

Answer Sheet for MCQs

Index No. -

Out of the four answers given, write the number of the correct answer option in the answer sheet.
 Marks will not be given for mentioning more than one answer in the box.

Attach this answer sheet to your answer booklet.

QUESTION NO.	ANSWER
1.	
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DATE: 20 .08. 2023

TIME: 9.30 a.m. – 1130 a.m.

This paper consists of Part – I (MCQ) and Part – II (Essay type questions)

INSTRUCTIONS FOR PART - I:

- Part I comprises of 20 Multiple Choice Questions carrying 40 Marks (2 Marks X 20).
- A separate answer sheet with question numbers is given to answer the Multiple-Choice Questions in part I of this paper. For each question, write the number of the correct answer option out the four alternatives in the given answer sheet.
- Write your registration number in the space given in the answer sheet.
- Attach the answer sheet to your answer booklet.

Macro Economics
Multiple Choice Questions – Part I

1. Which of the following is studied under Macroeconomics?
 - i. How the individuals make choices, given the alternatives available.
 - ii. How the firms combine capital and labor to produce a good.
 - iii. How prices of different goods are determined.
 - iv. The causes of unemployment.

2. Aggregate spending of an economy consists of;
 - i. Consumption and Investment expenditure.
 - ii. Consumption, Investment and Private expenditure.
 - iii. Consumption, Investment expenditure and Government transfer payments.
 - iv. Consumption, Investment, Government expenditure and Net Exports.

3. The most effective way to stimulate the economy and enhance the growth of a country is to,
 - i. Increase taxes and reduce government expenditure.
 - ii. Reduce taxes and increase government expenditure.
 - iii. Reduce both taxes and the government expenditure.
 - iv. Increase both taxes and the government expenditure.

4. Which of the following can be considered as an expansionary monetary policy?
 - i. Increase in reserve requirement of commercial banks.
 - ii. Increase in interbank lending rate.
 - iii. Decrease in interbank lending rate.
 - iv. Introduction of tighter credit policy.

5. Autonomous consumption expenditure means;
- The amount spent on consumption when income level is zero.
 - The total amount spent on consumption.
 - Change in expenditure on consumption in relation to changes in income.
 - None of the above is correct.
6. Which of the following is a transfer payment?
- A salary payment to an officer serving in a government department.
 - A pension paid to a former government servant.
 - A payment to a private firm for the services provided to the government.
 - An allowance paid to employees of a local authority.
7. Consider the details of an economy given; autonomous consumption expenditure = Rs. 124 bl., Marginal Propensity to Consume (MPC) = 0.8; the savings function of the given economy is;
- $S = 124 + 0.8Y_d$, ii. $S = 124 + 0.2 Y_d$, iii. $S = -124 + 0.8Y_d$, iv. $S = -124 + 0.2 Y_d$.
8. If autonomous consumption expenditure = Rs. 88 bl., and Marginal Propensity to Save (MPS) = 0.3; the amount of consumption expenditure in this economy, when disposable income is Rs. 4000/= is;
- Rs. 2888 bl., ii. Rs. 1112 Bl., iii. Rs. 2400 bl. iv. Rs. 3912 bl.
9. In an economy in which the government collects taxes (T) and provides transfers (Tr); to calculate disposable income (Y_d);
- $Y_d = \text{Income} - \text{Taxes} - \text{Transfers}$.
 - $Y_d = \text{Income} + \text{Taxes} + \text{Transfers}$
 - $Y_d = \text{Income} - \text{Taxes}$
 - $Y_d = \text{Income} - \text{Taxes} + \text{Transfers}$.
10. Which one of the following indicates an injection into the circular flow of income of an economy?
- An expenditure on imports
 - The government's budget deficit,
 - Level of savings
 - An increase in government tax rate.
11. Which of the following correctly explains the relationship between Gross Domestic Product (GDP) and Gross National Product (GNP)?
- $\text{GDP} = \text{GNP} + \text{Net Factor Income from Abroad (NFIA)}$.
 - $\text{GDP} = \text{GNP} + \text{Factor Income receipts}$.
 - $\text{GNP} = \text{GDP} + \text{Factor Income receipts}$.
 - $\text{GNP} = \text{GDP} + \text{Net Factor Income from Abroad}$.

Answer the questions no. 12,13. 14. and 15, considering the details of a three-sector economy given below; (Figures in rupees billions)

Consumption Function (c) = $112 + 0.8Y_d$, Autonomous Investments (I) = 100, Autonomous Government expenditure (G) = 108;

12. The equilibrium level of National Income of this economy is;
- Rs. 400 bl., ii. Rs. 1600 bl, iii. Rs. 1680 bl., iv. Rs. 1720 Bl.
13. The amount of savings in this economy is;
- Rs. 208 bl., ii. Rs. 480 bl., iii. Rs. 1392 bl., iv. Rs. 710 bl.

14. The expenditure multiplier of the given economy equals to;
i. 4 ii. 1.25 iii. 5 iv. 2.
15. If an autonomous tax of Rs. 10 bl. ($T = 10$) is imposed by the government, the equilibrium level of National Income of this economy,
i. decreases by Rs. 40 bl. ii. Increases by Rs. 40 bl., iii. Remains the same, iv. decrease by Rs. 10 bl.
16. Which of the following given statement is correct;
i. The lower the Marginal Propensity to Consume (MPC), the higher is the expenditure multiplier.
ii. The higher the Marginal Propensity to Save (MPS), the higher is the expenditure multiplier.
iii. Expenditure multiplier does not depend on the Marginal Propensity to Save (MPS) of an economy.
iv. The higher the Marginal Propensity to Consume (MPC), the higher is the expenditure multiplier.
17. Which of the following statement is **incorrect**?
i. Transaction demand for money is negatively related to income.
ii. Transaction demand for money is positively related to income.
iii. Speculative demand for is negatively related to rate of interest.
iv. Precautionary demand for money is positively related to income.
18. The "IS" curve is negatively sloped, because;
i. There is a negative relationship between rate of interest and speculative demand for money.
ii. There is a negative relationship between rate of interest and investments
iii. The slope is determined by the autonomous investments.
iv. Along the curve savings equal investments.
19. When demand for money does not depend on the rate of interest at all, and it only depends on income;
i. IS curve is vertical (Perfectly Inelastic)
ii. IS curve is horizontal (Perfectly Elastic)
iii. LM curve is vertical (Perfectly Inelastic)
iv. LM curve is horizontal (Perfectly Elastic)
20. In the liquidity trap range;
i. rate of interest is very low therefore the opportunity cost of holding money becomes zero.
ii. rate of interest is very high therefore the opportunity cost of holding money becomes very high.
iii. rate of interest is very high therefore level of savings increases.
iv. rate of interest remains the same, therefore level of investments remains the same.

PART – II

Answer all the questions.

All questions carry equal marks (30 Marks each)

Question No 1.

- A. i. What is meant by National Income? Explain. (02 Marks)
 ii. What are the three approaches in measuring National Income of a country? Explain. (06 Marks)
 iii. What are the limitations of measuring National Income of a country? Explain. (07 Marks)
- B. At present economy of Sri Lanka is confronted with many setbacks, higher inflation, depreciating domestic currency, negative economic growth, higher rate of interest etc., how would this affect the domestic business and investment environment? What measures could you suggest as a business manager to come out of this adverse situation? Explain with examples. (15 Marks)

Question No 2.

- A. i. Why the LM curve is positively sloped? Explain. (05 Marks)
 ii. Using illustration distinguish between "Partial Crowding out Effect" and "Full Crowding Out Effect" (10 Marks)
- B. Using IS/Lm framework explain how the following changes influence the rate of interest and level of income in an economy.
- i. The government allocated more funds for education and health.
 - ii. The Central Bank increases the reserve requirement of commercial banks.
 - iii. The Central Bank buys back the government bonds and securities from the public.
 - iv. The government increases the tax rate.
 - v. The average price level in the economy decreases. (15 Marks)

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