

THE OPEN UNIVERSITY OF SRI LANKA
FACULTY OF MANAGEMENT STUDIES



BACHELOR OF MANAGEMENT STUDIES HONOURS
BACHELOR OF MANAGEMENT STUDIES HONOURS IN ACCOUNTING AND
FINANCE
BACHELOR OF MANAGEMENT STUDIES HONOURS IN HUMAN RESOURCE
MANAGEMENT
BACHELOR OF MANAGEMENT STUDIES HONOURS IN MARKETING
MANAGEMENT

AFU 4402 - MACROECONOMICS
FINAL EXAMINATION – 2024 / 2025
DURATION – THREE (03) HOURS

DATE: 08th JUNE 2025

TIME: 1.30 p.m. – 4.30 p.m.

INSTRUCTIONS:

- This question paper consists of **six (06) questions**.
- Answer any **five (05) questions**. All questions carry equal marks.
- Please **write your index number** at the top of the answer sheet in the provided space.
- This question paper consists of **three (03) typed pages**.
- Attach the answer sheets to your answer booklet.
- Use of non-programmable calculator is allowed.

Question No. 01

- A. i. What are the major macroeconomic goals of a country? Explain. **(04 Marks)**
 ii. Differentiate between Gross Domestic Product (GDP) and Gross National Product (GNP). **(04 Marks)**
- B. i. What is meant by “Supply Side Policies”? Explain using an illustration. **(05 Marks)**
 ii. “Application of expansionary fiscal and monetary policies to stimulate the economy growth could create upward pressure on the rate of inflation in the given economy.”
 Do you agree? Explain. **(07 Marks)**

Question No. 02

- A. What are the three major approaches in measuring National Income? Explain. **(06 Marks)**
- B. Details of a three sector economy given as; (Figures in Rs. Billions).
- | | |
|--|---|
| C = 126 + dY _d (Consumption Function) | MPS = 0.3 (Marginal Propensity to Save) |
| I = 105 (Autonomous Investments) | T = 20 (Autonomous Taxes) |
| G = 86 (Autonomous Government expenditure) | |

- i. Calculate the equilibrium level of National Income (NI) using both Consumption function and Savings function separately. **(04 Marks)**
- ii. In addition to autonomous taxes, if the government introduces an income tax of 10% and Transfer payments of Rs.10 billion (TR=10), find the new equilibrium level of NI. **(03 Marks)**
- iii. Suppose the economy opens up and following changes take place.
 $X = 63$ (Autonomous Exports) $M = 65 + 0.1Y$ (Import Function)
 Find the equilibrium level of NI. **(04 Marks)**
- iv. Why exports are autonomous and imports are a function? Explain. **(03 Marks)**

Question No. 03

- A. i. Using an illustration explain how the income flow among four sector economy. **(04 Marks)**
- ii. "As the number of sectors in an economy increases, the value of expenditure multiplier also increases". Do you agree? Explain. **(04 Marks)**
- B. i. Why the tax multiplier is always less than the expenditure multiplier? Explain **(04 Marks)**
- ii. Suppose that the full employment level of output of an economy is Rs. 800 billion whereas the actual equilibrium of output is Rs. 600 billion and the Marginal Propensity to Save is 0.2. If the actual output to be brought up to the full employment level;
 - a. by changing the government expenditure, by how much the government expenditure should be changed?
 - b. by changing taxes instead of government expenditure, by how much the taxes should be changed? What are the drawbacks associated with using taxes to bridge the gap? Explain. **(08 Marks)**

Question No. 04

- A. i. What is meant by "Double Coincidence of Wants"? Explain using an example. **(03 Marks)**
- ii. Explain how the introduction of money has helped to overcome the major drawbacks associated with barter system? **(05 Marks)**
- B. i. What are the key roles played by the commercial banking system of a country? Explain. **(04 Marks)**
- ii. "The higher the reserve requirement of commercial banks, the higher is the amount of money that can be created" Do you agree? Explain using an example. **(04 Marks)**
- iii. What are the limitations faced by the banking system in creating money? Explain. **(04 Marks)**

Question No. 05.

- A. "Unlike Demand Pull inflation, when average price level in an economy increases due to Cost Push factors, the output in the given economy declines". Do you agree? Explain using illustrations. **(06 Marks)**

- B. i.** How would the inflation affect following segments of the society? Explain.
a. Fixed income earners and the Flexible income earners. (04 Marks)
b. People belonged to the lowest strata of the society. (10 Marks)
- ii.** How would the higher inflation affect the business sector in particular and the economy of a country in general? (10 Marks)

Question No. 06

- A. i.** Why unemployment rate of a country is a crucial macroeconomic indicator? Explain. (04 Marks)
- ii.** Define;
a. Frictional, and
b. Structural unemployment. (04 Marks)
- iii.** Identify the steps that can be taken to reduce frictional and structural unemployment. (04 Marks)
- B. i.** Define the concept of “Economic Growth” and identify the sources of growth. (05 Marks)
- ii.** What are the limitations of economic growth? Explain. (03 Marks)

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