

THE OPEN UNIVERSITY OF SRI LANKA
FACULTY OF MANAGEMENT STUDIES



BACHELOR OF MANAGEMENT STUDIES HONOURS DEGREE
PROGRAMME
LEVEL 4
AFU 4572 – 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. “In many instances, macroeconomics focuses on aggregate economic behavior” Elaborate. **(05 Marks)**
- ii. How would the knowledge to analyze the impact of behavior of leading macroeconomic indicators like rate of interest, exchange rate etc. help a business manager in making effective decisions? Explain using examples. **(07 Marks)**
- B) i. Why it is important to measure national income? Explain. **(04 Marks)**
- ii. What are the limitations of measuring national income? Explain. **(04 Marks)**

Question No. 02

- A) Using an illustration explain how the income flows among a three-sector economy, households, business and government sectors. **(03 Marks)**
- B) Details of a three-sector economy given as; (Figures in Rs. billions).
- $C = 116 + dY_d$ (Consumption Function) $MPS = 0.2$ (Marginal Propensity to Save)
- $I = 108$ (Autonomous Investments) $T = 10$ (Autonomous Taxes)
- $G = 98$ (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 20% and Transfer payments of Rs.05 billion ($TR=05$), find the new equilibrium level of NI. **(03 Marks)**

- iii. Calculate Expenditure and Tax multipliers. (02 Marks)
- iv. Suppose the economy opens up and following changes take place.
 $X = 48$ (Autonomous Exports) $M = 45 + 0.1Y$ (Import Function)
 Find the equilibrium level of NI. (04 Marks)
- v. If the domestic rupee appreciates and autonomous exports changes by Rs.2 billion and autonomous imports changes by Rs.1 billion, calculate the new equilibrium level of NI. (04 Marks)

Question No. 03

- A. i. What does the “IS” curve represent? Why the IS curve is negatively sloped? Explain. (03 Marks)
- ii. What does the “LM” curve represent? Why the LM curve is positively sloped? Explain. (03 Marks)
- B. Using IS/LM framework explain the impact of following changes on the economy.
- The government has increased the tax rate.
 - The average price level in the economy has gone up.
 - The government has increased expenditure on infrastructure.
 - To stimulate the economy the policy makers introduced expansionary monetary policies. (10 Marks)
- C. At a time when the demand for money is not affected by rate of interest at all, what could be the most effective policy, fiscal or monetary, in changing level of income? Explain using illustrations. (04 Marks)

Question No. 04

- A. i. Identify several inherent limitations of barter system. (04 Marks)
- ii. What are the functions of money and how would these functions help to overcome limitations of barter system identified in part (i)? Explain. (06 Marks)
- B. i. Differentiate between “nominal” and “real” money supply. (02 Marks)
- ii. What does “Financial Intermediary” refer to? Explain. (04 Marks)
- iii. How does the deposit coefficient determine the level of money creation in commercial banks? Explain. (04 Marks)

Question No. 05

- A. i. What is meant by “Stagflation”? Explain. (03 Marks)
- ii. Compare and contrast “Demand Pull Inflation” and “Monetarist View” of inflation. (06 Marks)
- iii. What are the various measures available to control inflationary pressure in an economy? (06 Marks)
- B. What is meant by short run Phillips Curve? Use an illustration to explain your answer. (05 Marks)

Question No. 06

- A) i. Why the “Rate of Unemployment” is considered as an important macroeconomic indicator?
Explain. (04 Marks)
- ii. Define “Natural Rate of Unemployment”. (02 Marks)
- iii. What are the costs of unemployment? Explain. (04 Marks)
- B) i. Using an illustration identify the stages of “Business Cycle”. (05 Marks)
- ii. What is “Keynesian theory of Business Cycle”? Explain. (05 Marks)

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