

**THE OPEN UNIVERSITY OF SRI LANKA
FACULTY OF MANAGEMENT STUDIES**



**BACHELOR OF MANAGEMENT STUDIES HONOURS DEGREE
PROGRAMME**

LEVEL 4

AFU 4572 – MACROECONOMICS

FINAL EXAMINATION – 2025 / 2026

DURATION – THREE (03) HOURS

DATE: 27th JUNE 2026

TIME: 9.30 a.m. – 12.30 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) "Sound knowledge in macroeconomics is important for a business manager to make effective business decisions." Elaborate, linking your explanation to the current macroeconomic trends in the domestic economy. **(10 Marks)**
- B) Explain whether you agree with the following statements (Use illustrations where appropriate).
- i. To enhance the economic growth performance expansionary fiscal and monetary policies should be employed.
 - ii. The supply side policies aim at enhancing productive capacity of an economy. **(10 Marks)**

Question No. 02

- A) i. What are the components of Aggregate Demand (AD)? Using a circular flow diagram show how money, resources and products circulate between these components across the main economic sectors. **(06 Marks)**
- ii. a. Differentiate between Nominal Gross Domestic Product and Real Gross Domestic Product.
 - b. Why is the real GDP a better measurement of measuring economic growth and well-being of a country? Explain. **(06 Marks)**
- B) Explain whether you agree with the following.
- i. The tax multiplier is always lower than the expenditure multiplier.
 - ii. The higher the number of sectors in the economy, the higher the expenditure multiplier is. **(08 Marks)**

Question No. 03

- A) i. Identify the major approaches in measuring national income. (03 Marks)
ii. What are the limitations of measuring national income? Explain. (04 Marks)
- B) Details of a three-sector economy is given below (Figures in Rs. Billions).
- $C = 148 + bY_d$ (Consumption Function) $MPS = 0.2$ (Marginal Propensity to Save)
 $I = 108$ (Autonomous Investments) $T = 10$ (Autonomous Taxes)
 $G = 92$ (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%, find the new equilibrium level of NI. (03 Marks)
iii. Calculate Expenditure and Tax multipliers. (02 Marks)
iv. Suppose the economy opens and following changes take place.
 $X = 32$ (Autonomous Exports) $M = 36 + 0.1Y$ (Import Function)
Find the equilibrium level of NI. (04 Marks)

Question No. 04

- A) i. Identify the major drawbacks associated with barter system? Explain. (03 Marks)
ii. While identifying the functions of money, explain how the introduction of money helps to overcome the drawbacks of barter system. (04 Marks)
iii. Differentiate between "Narrow" and "Broad" money supply. (03 Marks)
- B) i. Identify the major functions of commercial banks. (04 Marks)
ii. How would meeting the reserve requirement affect the ability of commercial banks to create money?
Identify the major limitations in creating money by commercial banks. (06 Marks)

Question No. 05

- A) i. What do "IS" (Investment-Saving) and "LM" (Liquidity Preference-Money Supply) curves represent? (03 Marks)
ii. Why is the "IS" curve negatively slopped? Explain. (02 Marks)
- B) Using IS/LM (Investment-Saving / Liquidity Preference-Money Supply) framework, explain the impact of following changes on the economy.
i. The government has introduced expansionary fiscal policy to achieve full employment.
ii. The central bank reduced the reserve requirement of commercial banks.
iii. The average price level in the economy has come down.
iv. Tighter credit policy has been used to contain inflation in the economy. (10 Marks)
- C) When demand for money does not depend on the rate of interest at all, what are the most effective policies to increase the income level of an economy? Explain using illustrations. (05 Marks)

Question No. 06

- A) i. Using illustrations differentiate between “Demand Pull Inflation” and “Cost Push Inflation”.
(05 Marks)
- ii. How could the depreciation of the domestic currency against its major trading partners affect the average price level of the given domestic economy? Explain taking Sri Lankan economy as an example.
(06 Marks)
- B) Differentiate between;
- i. Core inflation and Headline inflation.
- ii. Anticipate inflation and the Unanticipated inflation.
(06 Marks)
- C) How would the high inflation affect the people belonging to the lowest strata of society in the given country? Explain.
(03 Marks)

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