THE OPEN UNIVERSITY OF SRI LANKA
BACHELOR OF MANAGEMENT STUDIES (BMS) DEGREE PROGRAMME
LEVEL IV / INTERIM
MCU 2207 – MACRO ECONOMICS
ASSIGNMENT TEST – MAY 2006

DURATION : TWO (02) HOURS

Date : 06th May 2006. Time : 2.00 p.m. – 4.00 p.m.

No. of Questions : 06

Instructions : Answer any four (04) questions, each question carries equal marks. Hand writing should be legible.

1. i. Briefly explain the major Macro Economic goals of a country. (05 Marks)

ii. What is the Consumption Function ? (05 Marks)

iii. Details of a Four Sector economy given as,

C = 80 + 0.8Yd	(Consumption)
T = 10 + 0.1Y	(Taxes)
I = 100	(Investment)
G = 128	(Government Expenditure)
M = 20 + 0.2Y	(Imports)
X = 80	(Exports)

(Figures are in Rs. Billions)

(a) Calculate the National Income. (06 Marks)

(b) Find the Expenditure Multiplier. (04 Marks)

(c) Suppose the Government introduces expansionary Fiscal Policy and changes the expenditure by Rs. 12 Billion. Find the new National Income. (05 Marks)

2. i. Explain the reasons for negative slope of IS and positive slope of LM Curves. (04 Marks)

ii. What is Partial Crowding out effect ? (06 Marks)

iii. What is Liquidity trap ? What is the most effective policy under such condition ? Why ? (15 Marks)

3. Write brief notes on the following.

i. Double Coincidence of wants

ii. Speculative Demand for money

iii. Imputation

iv. Narrow and Broad money supply

v. Double counting (05 x 05 Marks)

4. i. What is Income Velocity ? (05 Marks)

ii. Did the Classical Keynesians and Monetarist have the same view on Income Velocity? Explain. (05 Marks)

iii. "According to Classicals there is no direct relationship between Money Supply and Price". Do you agree ? Explain. (15 Marks)

5. i. What is Economic Growth ? (05 Marks)

ii. Suppose full employment level of out put of an Economy is Rs. 800 Billion, but the actual output is Rs. 700 Billion. How can the government generate full employment using Fiscal Policies ?
(Marginal Propensity to Save = 0.2) (10 Marks)

iii. Discuss the advantages and disadvantages of such policies. (10 Marks)

6. i. What is the difference between Real and Nominal G.N.P ? (05 Marks)

ii. What are the limitations of estimating National Income of a developing country ? Make special reference to Sri Lanka. (20 Marks)

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