



Answer any 3 questions. (all questions carry equal marks)

1. “There are limitations in estimating National Income”. Discuss, with special reference to Sri Lanka.

2. Details of a three sector economy are given as,
 Consumption (C) = $80 + 0.8 y$
 Investment (I) = 60
 Government expenditure (G) = 80
 - i. Find the National income ?
 - ii. If government introduces a lump sum tax of 10 billion, what will be the national income ?
 - iii. Suppose government opens up the economy and following changes take place.
 Imports \bar{M} = $60 + 0.2y$
 Exports \bar{X} = 80
 What is the new national income ?
 - iv. If autonomous imports come down by 10 billion, what will be the national income ?
 - v. Calculate the multiplier in the four sector economy.
 - vi. What is the multiplier and why it is important ?

3. i. Complete the following table.

Income (Rs.)	Consumption (Rs.)	Savings (Rs.)	MPC	MPS
1200	-	-	0.8	-
2000	-	400	-	-
2200	-	-	-	0.4
3000	-	-	0.7	-
4000	-	-	-	0.2

 - ii. “When the value of marginal propensity to consume increases the value of multiplier decreases” Do you agree ? Explain.
 - iii. Suppose that in four sector economy exports currently equal imports. What happens to the level of income and the country’s trade balance if,
 - (a) tax increases
 - (b) government expenditure increases.
 - (c) Export increases

4. Write brief notes on the following.
 - i. Nominal and Real Gross Domestic product.
 - ii. Imputation.
 - iii. Importance of fiscal and monetary policies.
 - iv. Disposable income

