

**THE OPEN UNIVERSITY OF SRI LANKA**  
**BACHELOR OF MANAGEMENT STUDIES DEGREE (BMS) LEVEL 04**  
**ASSIGNMENT TEST 2008**  
**MACRO ECONOMICS - MCU 2207**



**DURATION : TWO (02) HOURS**

**DATE : 31.05.2008**

**TIME : 10.00 a.m – 12.00 p.m.**

Answer only **three (03)** questions. All questions carry equal marks.

01. “Macro economics is the study of overall economy”. Elaborate this statement.
02. (i) How are Consumption and Savings related?  
(ii) Why does MPC take as an important determinant of multiplier? Explain with examples.
03. (i) How does international trade influence a country’s level of income?  
(ii) Assume the following details of an economy. Values are in Millions.
- $C = 60 + 0.7 Y_d$   
 $I = 212$   
 $G = 160$   
 $T = 15 + 0.15Y$   
 $X = 50$  (Exports)  
 $M = 70 + 0.12Y$  (Imports)
- a. Calculate National Income.  
b. If both imports and exports increased by 20 Million what will happen to the equilibrium level of National Income?
04. (i) What are the determinants of employment? Explain.  
(ii) Can real GDP change over time? Explain
05. (i) Graphically explain the Money Demand Function?  
(ii) What condition is required for the LM schedule to be vertical? Explain with examples.