



THE OPEN UNIVERSITY OF SRI LANKA
BACHELOR OF MANAGEMENT STUDIES DEGREE (BMS) LEVEL 04
FINAL EXAMINATION 2007/2008
MACRO ECONOMICS - MCU 2207

147

DURATION : THREE (03) HOURS

DATE : 03.02.2008

TIME : 9.30 a.m – 12.30 p.m.

Answer only **five (05)** questions.

- 1 Explain the impact of changes in macro economic variables on business decision making. (provide examples where possible)

(20 Marks)

- 2 (i) What is 'Consumption Function'? Plot the Consumption Function $C = a + bY$, assuming hypothetical values for a , b and Y . (05 Marks)

- (ii) Derive the Savings Function from the Consumption Function given in the question (i). (02 Marks)

- (ii) Suppose model of an economy is given as follows.

$$C = 50 + 0.8Y_d$$

$$I = 100$$

$$G = 50$$

$$T = 30 + 0.2Y$$

- Find, (a) Equilibrium level of National Income.
(b) Expenditure Multiplier
(c) The National Income, if MPS is 0.3.

(13 Marks)

- 3 (i) What factors determine the magnitude of the slope of the IS curve? Explain by using graphs. (10 Marks)

- (ii) "In Liquidity Trap, monetary policy is powerless to affect the interest rate". Elaborate this statement with an aid of a graph. (10 Marks)

- 4 (i) Briefly explain the limitations of money creation of the commercial banks. (10 Marks)

- (ii) "A power of predictability of the Simple Quantity Theory of money is weak". Explain. (10 Marks)

5 "There have been many causes for the upward movements of general price level in the recent past in Sri Lanka" Elaborate this statement by taking different theories of inflation. (20 Marks)

6 (i) What is Business Cycle? What are the different phases of business cycle? How will the different phases of business cycle affect the performance of business? (10 Marks)

(ii) How can the government use monetary and fiscal policies to control cyclical fluctuations in the economy? (10 Marks)

7 Write short notes on four (04) of the followings.

- (i) Imputation
- (ii) The nominal and real money supply
- (iii) Motives for holding money
- (iv) Seasonal Unemployment
- (v) The determinants of growth

(5 x 4 Marks)

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