

THE OPEN UNIVERSITY OF SRI LANKA
DEPARTMENT OF SOCIAL STUDIES
BA DEGREE IN SOCIAL SCIENCES – LEVEL 3
FINAL EXAMINATION (2007)
SSU 1204 - PRINCIPLES OF MACROECONOMICS



122

DURATION – THREE (03) HOURS

Date: 08th October 2007

Time: 9.30 a.m. – 12.30 p.m.

Answer five (05) questions selecting at least two (02) questions from each part.
Each question carries 20 marks.

PART I

1. “National income statistics are a powerful tool for economic understanding and analysis”. Explain this statement.
2. (a) “Income and output are two sides of the same coin”. Illustrate, using the circular flow of income diagram.
(b) Explain why injections should be equal to leakages to reach equilibrium in an economy.
3. (i) Assume that the consumption schedule for a private open economy is such that $C = 50 + 0.8y$. Assume further that investment ($I = 30$) and net exports ($X_n = 10$) are autonomous. Determine.
(a) Marginal Propensity to Consume
(b) The equilibrium level of income for the economy.
(c) If the investments increase by additional 8, what will be the new National Income?
(ii) Let us add the public sector to the private economy of question 3 (i) as follows. Assume $G = 28$ and $T = 30$. Using the equilibrium condition, determine the equilibrium level of income.
4. (i) List the major policy changes that have been adopted in Sri Lanka since 1977.
(ii) Explain the difference between stabilisation policies and structural reforms in Sri Lanka.

PART II

5. (a) “Comparisons of per capita GDP across international boundaries provide information on the distribution of GDP within each country”. Explain.
(b) “The core of development involves changing the quality of life of human beings more than altering a nation’s physical environment”. Discuss.

6. (i) "Inflation is a persistent increase in the average level of price, but not a change in any specific price". Illustrate
(ii) Explain why there are different indices to measure the level of inflation in Sri Lanka?
7. (i) Define the concepts of Labour Force Participation Rate, Employment and Unemployment.
(ii) What are the policy measures that you recommend to deal with the unemployment problem in Sri Lanka?
8. (i) Define the Balance of Payments (BOP).
(ii) Explain briefly the major trends in the Balance of Payments in Sri Lanka since 1978.
(iii) What are the major policy instruments used to correct the BOP deficits in Sri Lanka?
9. Write short notes on any four (04) of the following.
 - (i) The MPC and the size of the multiplier.
 - (ii) The crowding out effect and fall in investment.
 - (iii) Tax revenue and tax/GDP ratio.
 - (iv) Profitability and liquidity in commercial banks.
 - (v) Monetary policy and open market operations.
 - (vi) World Bank and International Monetary Fund (IMF)
 - (vii) Sri Lanka and South Asian Preferential Trade Arrangement (SAPTA).

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