

THE OPEN UNIVERSITY OF SRI LANKA
FACULTY OF MANAGEMENT STUDIES



BACHELOR OF MANAGEMENT STUDIES HONOURS
BACHELOR OF MANAGEMENT STUDIES HONOURS IN ACCOUNTING AND
FINANCE
BACHELOR OF MANAGEMENT STUDIES HONOURS IN HUMAN RESOURCE
MANAGEMENT
BACHELOR OF MANAGEMENT STUDIES HONOURS IN MARKETING
MANAGEMENT

LEVEL 4

AFU 4402 - MACROECONOMICS
FINAL EXAMINATION – 2025 / 2026
DURATION – THREE (03) HOURS

DATE: 27th JUNE 2026

TIME: 9.30 a.m. – 12.30 p.m.

INSTRUCTIONS:

- This question paper consists of **six (06) questions**.
- Answer any **five (05) questions**. All questions carry equal marks.
- Please **write your index number** at the top of the answer sheet in the provided space.
- This question paper consists of **three (03) typed pages**.
- Attach the answer sheets to your answer booklet.
- Use of non-programmable calculator is allowed.

Question No. 01

- A) i. “While microeconomics focuses on individual decision makers to grasp how specific parts of the economy works; macroeconomics focuses on the aggregate behaviour of the economy”
Elaborate with examples.
(06 Marks)
- ii. What is meant by “Fallacy of Composition”? Explain using an example.
(04 Marks)
- B) “Slowing down of the economic momentum, rising rate of interest and depreciating exchange rate are some of the changes that can be currently observed in the domestic economy.” How could these affect the business and investment environment of the country? Explain with examples.
(10 Marks)

Question No. 02

- A) i. What are the components of Aggregate Demand (AD)? Using a circular flow diagram show how money, resources and products circulate between these components across the main economic sectors.
(06 Marks)
- ii. a. Differentiate between Nominal Gross Domestic Product and Real Gross Domestic Product.

- b. What is the better measurement of economic growth and well-being of a country, is it nominal GDP or real GDP? Explain. (07 Marks)
- B) Compare and contrast among fiscal, monetary and supply side policies. (Use illustrations where appropriate.) (07 Marks)

Question No. 03

- A) Identify the advantages and limitations of measuring national income? Explain. (08 Marks)
- B) Details of a three-sector economy is given below; (Figures in Rs. Billions).
- $S = -136 + dY_d$ (Savings Function) $MPC = 0.8$ (Marginal Propensity to Consume)
 $I = 112$ (Autonomous Investments) $T = 10$ (Autonomous Taxes)
 $G = 96$ (Autonomous Government expenditure)
- i. Calculate the equilibrium level of National Income (NI) using both Consumption function and Savings function separately. (04 Marks)
- ii. In addition to autonomous taxes, if the government introduces an income tax of 10%, find the new equilibrium level of NI using both consumption and saving functions. (06 Marks)
- iii. Calculate Expenditure and Tax multipliers. (02 Marks)

Question No. 04

- A) i. Compare and contrast “Demand Pull Inflation” and “Monetarist View of Inflation”. (Use illustrations where appropriate) (05 Marks)
- ii. How useful are the existing theories of inflation in analyzing the inflationary trends in domestic economy of Sri Lanka? (08 Marks)
- B) i. Differentiate between “Core Inflation” and “Headline Inflation.” (03 Marks)
- ii. How would inflation affect following segments of society? Explain.
- a. Fixed income earners and flexible income earners.
- b. Creditors and debtors. (04 Marks)

Question No. 05

- A) i. Why is the unemployment rate of a country considered a vital macroeconomic indicator? Explain. (04 Marks)
- ii. Is it possible for a country to achieve “Zero” unemployment? Explain. (04 Marks)
- B) i. Differentiate between “Voluntary” and “Involuntary” unemployment. (03 Marks)
- ii. What is meant by “Induced Unemployment”? What are the steps that can be taken to reduce induced unemployment? Explain using illustrations. (05 Marks)

iii. Could unemployment in country bring about some benefits to its economy? Explain.

(04 Marks)

Question No. 06

A) i. Using an illustration identify the stages of "Business Cycles".

(05 Marks)

ii. What are the appropriate policy measures that can be taken to combat recessionary conditions of a country? Explain.

(05 Marks)

B) i. Differentiate between "Economic Growth" and "Economic Development".

(04 Marks)

ii. Identify the benefits and cost of high economic growth.

(06 Marks)

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