



University of Kelaniya – Faculty of Social Sciences

Academic Year 2016/2017

Bachelor of Arts Honors Degree First Year

Second Semester Examination- January/February 2019

Economics

ECON 22414/ SOST 22434 – Introductory Macroeconomics

Answer any Four (04) questions .

No. of Questions: 07

Time: 03 hours

01. (a). Explain the scope of macroeconomics? Support your answer with examples.

(8 marks)

(b). Explain briefly

(each 4 marks)

i. Real GDP & Nominal GDP

ii. Sticky Prices and Sticky Wages

iii. The Investment Multiplier and The Tax Multiplier

02 i. Explain the structure of foreign exchange market?

(5 marks)

ii. Describe the kinds of foreign exchange markets?

(5 marks)

iii. How is the exchange rate determined in the foreign exchange market?

(5 marks)

iv. Explain the nature of foreign exchange transactions?

(5 marks)

03. i. What is a business cycle? (5 marks)
- ii. Explain the four phases of Business Cycle. (10 marks)
- iii. What are the policy measures to control Business Cycle (5 marks)
04. i. Explain what is meant by inflation? (4 marks)
- ii. Discuss the types of inflation? (4 marks)
- iii. Describe the kinds of unemployment? (4 marks)
- iv. What is the relationship between inflation and unemployment? Use the Philips Curve to support your answer. (8 marks)
05. i. Why the aggregate demand curve is downward sloping? (5 marks)
- ii. What factors cause shifts in Aggregate Demand curve? (5 marks)
- iii. What are the main reasons for the aggregate supply curve sloping upward in the short- run? (5 marks)
- iv. Discuss the factors affecting the long-run aggregate supply curve to shift? (5 marks)
06. i. Discuss the three approaches of measuring GDP? (4 marks)
- ii. Explain the circular flow of national income of an open economy? (4 marks)
- iii. Consider the following simple economy with no government and foreign sectors (all figures are in million rupees..)
- $$C = 100 + 0.8Y \quad I = 50$$
- (a) What is the equilibrium level of national income in this case? (4 marks)
- (b) Calculate APC and APS at the equilibrium level of national income (4 marks)
- (c) If private investment increases from 50 to 100, calculate the value of income multiplier? (4 marks)

07. i. How does a country adjust the macroeconomic policies to change various economic conditions? Discuss with examples. (15 marks)

ii. Discuss the following graph that shows the growth rate of U.S. real GDP since 1870. (5 marks)

(5 marks)



