



**Institute of Human Resource Advancement (IHRA)**

**University of Colombo, Sri Lanka**

**Bachelor of Labour Management - Year II 2022/2023**

**2<sup>nd</sup> Semester Examination - English Medium**

**(Held in March, 2023)**

**BLM2232 - Macroeconomics**

**Instructions to the Candidates**

- (1) This paper consists of eight (08) questions and four (04) pages.
- (2) Answer five (05) questions.
- (3) Time allocated for the examination is three (03) hours.
- (4) Write your Index Number on all pages of answer scripts.
- (5) If a page or a part of this question paper is not printed, please inform the Supervisor immediately.

**Question No. 01**

1. State whether the following activities are included or not included in the calculation of Gross Domestic Production (GDP) and explain the reasons for your answer.
  - a) An investor purchases Rs. 1 million of newly issued shares of a Sri Lankan company. (02 Marks)
  - b) Construction of a new house worth of Rs. 50 million. (02 Marks)
  - c) The purchase of Rs. 50000 worth of fish by a restaurant in Colombo from a fisherman. (02 Marks)
  - d) Collection of Rs. 5 000 worth of bee honey by a farmer from a nearby forest. (02 Marks)
  - e) A research project costing Rs. 10 million completed by a university research team on the economic impact of Covid - 19. (02 Marks)
2. You have been given the following data for a hypothetical economy.

Item	Value (Rs. Billion)
Consumption expenditure	6000
Gross domestic capital formation	4000
Government expenditure	4000
Export of goods and services	3500
Import of goods and services	4500
Net primary income from the rest of the world	-400
Depreciation	500

Calculate the following based on the above data.

- a. Gross Domestic Production (2.5 Marks)
- b. Net Domestic Production (2.5 Marks)
- c. Gross National Production (2.5 Marks)
- d. Gross National Savings (2.5 Marks)

**Question No. 02**

1. What are the three approaches to calculate the total production value of an economy? (05 Marks)
2. Simply explain how to calculate Gross National Production (GDP) using income approach. (05 Marks)
3. Explain the concepts of double-counting errors and multi-counting errors? (05 Marks)
4. What are the uses of national income statistics? Explain. (05 Marks)

**Question No. 03**

1. The following model represents a closed economy with no government. (Values are in Rs. billion)  
$$C = 500 + 0.8Y$$
$$I = 600$$
  - a. How much is the autonomous expenditure in this economy? (04 Marks)
  - b. What is the equilibrium level of income? (04 Marks)
  - c. What is the value of the investment multiplier? (04 Marks)
2. To overcome the current economic crisis, the government adopted an expansionary fiscal policy. The government has two options. Either to increase government expenditure by LKR 1000 billions or reduce taxes by LKR 1000 billion. Which policy would be much more effective? (05 Marks)
3. Using appropriate diagrams, explain the differences between aggregate expenditure function and aggregate demand curve. (03 Marks)

**Question No. 04**

1. List down four main characteristics of money and explain why those characteristics are important for money to become an effective medium of transaction? (05 Marks)
2. According to Keynesian theory, there are three motives behind the money demand of the economy. Explain these three motives (05 Marks)

3. Explain the concept of liquidity trap? (05 Marks)
4. Central banks use several tools to control the money supply in order to reach their stability targets. Discuss two of such tools and how are those important in maintaining economic stability? (05 Marks)

**Question No. 05**

1. Explain the procedure of deriving IS curve using the graphs or equations. (05 Marks)
2. Value of the multiplier is the only factor which affects the slope of the IS curve? Do you agree with this? (05 Marks)
3. Explain the impact of changes in following factors on affect IS curve?
  - a) Changes in autonomous consumer expenditure (02 Marks)
  - b) Changes in planned investment spending unrelated to the interest rate (02 Marks)
  - c) Changes in government spending (02 Marks)
  - d) Changes in taxes (02 Marks)
  - e) Changes in net exports unrelated to the interest rate (02 Marks)

**Question No. 06**

1. Define the unemployment rate? (04 Marks)
2. Why does unemployment exist at any point in time? (04 Marks)
3. What is the natural rate of unemployment? (04 Marks)
4. What factors affect the natural rate of unemployment? (04 Marks)
5. There are several causes for the unemployment. Explain three of them using necessary examples. (04 Marks)

**Question No. 07**

Write short notes on the four of following topics.

1. Nominal GDP and Real GDP (05 marks)

- 2. Business cycles and recessions (05 marks)
- 3. Injections and withdrawals (05 marks)
- 4. Demand-pull and supply push inflations (05 marks)
- 5. Closed economy model and closed economy model with the government (05 marks)

**Question No. 08**

- 1) Identify the current economic crisis in Sri Lanka based on 05 macroeconomic variables that you have learned through this module? (10 marks)
- 2) To overcome the current economic crisis in Sri Lanka, the government needs to implement expansionary fiscal and monetary policies. Do you agree with this statement, give reasons for your answer. (10 marks)

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