Uva Wellassa University
Faculty of Animal Science & Export Agriculture
BSc in Export Agriculture
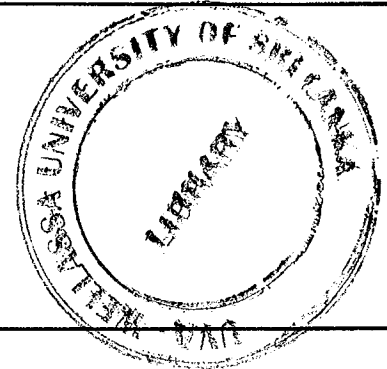
End Semester Examination September/October 2013
Year III Semester II

Macroeconomics (EAG 329 -2)

Instructions

Answer **all** the questions

No. of questions : Five (05)
No .of pages : Four (04)
Time : Two hours (02 hrs)
Total marks allocated: 100%

Question 01 (20 marks)

State whether the following statements are **TRUE** or **FALSE** giving **reasons**.

I. If the demand for money becomes more sensitive to changes in interest rates, the *LM*-curve becomes steeper.

II. The *IS*-curve is a representation of the aggregate supply of goods.

III. The natural rate of unemployment is generally thought of as the sum of the frictional structural and seasonal unemployment.

IV. Inflation initiated by an increase in aggregate demand is referred to as demand-pull inflation.

V. Unemployment tends to rise when aggregate output rises.

VI. The most disadvantage of any recession is a rise in unemployment rate.

VII. The percentage of the labour force that is unemployed is known as labor force rate.

VIII. Cost push inflation is from the production side rather than consumption side which is the case with demand – pull inflation.

Question 02

I. GDP is the total **market value** of all final goods and services produced within a **given geographical area** in a **given period of time.** But GDP excludes some items which are produced within that geographical area. Give three (03) examples. **(03 marks)**

II. What is Gross National Product? **(02 marks)**

III. Consider an economy that produces and consumes pens and automobiles. Following table gives the data for two different years.

--	Year 2006	Year 2012
Price of an automobile	Rs. 50, 0000	Rs. 60, 000
Price of a pen	Rs. 10	Rs. 15
Number of automobiles produced	80	100
Number of pens produced	600,000	500,000

Using the **year 2006** as the base year, compute the following statistics for **each year**:

    a.   Nominal GDP

    b.   Real GDP

    c.   The implicit price deflator for GDP

(05 marks × 03)

Question 03

I. For a domestic economy, $C = 85 + 0.75\,Y_d$, Investment (I) = 50, Government Spending (G) = 150, Government transfers (TR) = 100, Income tax rate (t) = 0.20

    a.   What is the multiplier? **(04 marks)**

    b.   Calculate the equilibrium income and budget surplus. **(06 marks)**

II You are given following information on a hypothetical economy. (all values are in million rupees)

$C = 0.8\,Y_d$
$I = 300 - 30i$
$T = 200 + 0.2\,Y$
$G = 400$
$Tr = 50$
$L = 0.3\,Y - 12i$ (Demand for money)
$Ms = 150$ (Real money supply)

    a. What is the equation of IS curve? **(03 marks)**
    b. What is the equation of LM curve? **(03 marks)**
    c. Find **simultaneous equilibrium** income and interest rate for the goods and money market. **(04 marks)**

17

Question 04

I   "Inflation cause value of money to fall and hence a rise in general price level"

      a. Define the term " Hyperinflation"   **(02 marks)**

      b. Briefly explain three (03) dimensions of Cost Push Inflation.   **(06 marks)**

      c. Is a high rate of inflation always bad for an economy? Explain your answer.

        (04 marks)

II   Distinguish between the short run and the long run aggregate supply curves.

        (08 marks)

Question 05

I. How would fiscal and monetary policymakers combine Government spending (G), Tax (TA), and Money Supply (MS) to fight a recessionary gap, while avoiding large budget deficits?

        (08 marks)

II. "The international trade is operated through the exchange rate system as a medium of settling international transaction"

      a. What is Fixed Exchange Rate?   **(04 marks)**

      b. Briefly explain the advantages of Fixed Exchange Rate System.   **(08 marks)**