

**UNIVERSITY OF COLOMBO, SRI LANKA**

**DEPARTMENT OF ECONOMICS**

**MASTER OF ECONOMICS – 2016**

**FINAL EXAMINATION – SEMESTER I**

**MECON 502 - MACROECONOMICS**

Time Allowed: THREE (03) Hours

Answer any 04 questions.

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- 1.
- i. “Explain briefly the classical economic concepts of Say’s Law, full employment equilibrium and non-interventionist government policy.  
(13.0 marks)
  - ii. What criticisms are levelled against the classical economic concepts? Explain your answer with real world examples.  
(12.0 marks)
- 2.
- i. “Neoclassical economics considers the importance of efficient markets, getting the basics right and presumes private sector as the engine of growth. These ideas have been espoused in the structural adjustment programs of the IMF and the World Bank during the 1980s” Examine the above statement  
(13.0 marks)
  - ii. Examine critically the validity of neoclassical fundamentals in the contemporary world.  
(12.0 marks)
- 3.
- i. The financial crisis in the United States in 2008 paved the way for the revival of Keynesian interventionist policies across the world. Governments have increasingly resorted to Keynesian solutions to manage their economic problems. Do you agree? Explain your answer shedding light on the experiences of countries of your choice.  
(13.0 marks)
  - ii. Discuss the main problems of adopting the Keynesian policies in the long run. Use rough sketches to illustrate your answer.  
(12.0 marks)

- 4.
- i. Compare and contrast the Keynesian cross, IS-LM-BP, and AD-AS models in explaining the impact of an expansionary fiscal policy on national income. (13.0 marks)
  - ii. Explain briefly the phases of a business cycle in a market economy. What policy measures could be adopted to pull an economy out of a deep recession? Use diagrams to illustrate your answer. (12.0 marks)
- 5.
- i. Derive the relationship between inflation and unemployment in the short run. How would this relationship break in the long run? (13.0 marks)
  - ii. Explain the Natural Rate of Unemployment (NRU) decomposing its components. Comment on NRU of Sri Lanka. (12.0 marks)
- 6.
- i. Compare and contrast the neoclassical growth theory and Harrod Domar growth model. What is the role of technology in the two models? (13.0 marks)
  - ii. Endogenous growth theories postulate that an economy can grow forever rather than converging to a steady state level of the economy. Explain using appropriate diagrams (12.0 marks)
7. Explain briefly the impact of any FOUR (04) the following events on the economy using the IS-LM-BP framework.
- i. The recent attempt of the government to increase the Value Added Tax rate from 11% to 15% exempting certain essential goods and services.
  - ii. The IMF policy advice to narrow the budget deficit and downward adjustment of the borrowing limits of the government.
  - iii. The declining demand for Sri Lanka migrant labour in the Middle East due to the plunging of world oil prices.
  - iv. The possible impact of ETCA on Sri Lankan economy.
  - v. The business ventures (such as farms, hotels, construction services) run by Sri Lankan security forces in the country.
  - vi. The removal of ban on fish exports of Sri Lanka to the European Union.
  - vii. The poor capital expenditure performance of many government Ministries of Sri Lanka

(8.25 marks for each section)

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