Rajarata University of Sri Lanka

Faculty of Management Studies

B.Sc. (Honors) in AC/BM/IS/HRM / MM Degree

Year I Semester II Macroeconomics

***Assignment 03***

***Date of submission: Within two weeks after your examination.***

**Question No: 01**

You are given the following information regarding a hypothetical economy.

Consumption, C = 50+ 0.9 (Y-T)

Tax Revenue T= 100

Investment I = 150- 5i

Government expenditure G= 100

Money demand, Md= Y- 100 i

Real Money Supply M/P=100

Exports, X=20

Imports, M=10+0.1Y

Where, Y= Income, i= Rate of interest

1. Obtain the IS and LM equation of the economy
2. Find out equilibrium income and rate of interest rate
3. Find the Balance of trade
4. Determine the amount of “Crowding-out effect “of an increase in government expenditure by Rs 20 million. Illustrate your answer using a graph.
5. Calculate Fiscal and Monitory multiplier

**Question No:02**

1. The efficiency of fiscal and monetary policies depends on the nature of IS-LM curve. Explain.
2. Derive AD curve from IS-LM model and Explain why AD curve slopes downward.

**Question No: 03**

1. An economy automatically reaches the full employment level. Explain using the classical views
2. Discuss the basis of Keynesian view of employment.
3. “Phillips curve state that there is a negative relationship between changes in the inflation rate and changes in unemployment rate”. Justify this statement.