Department of Education,Sabaragamuwa/weekly school

week- January 1

Subject-Economics

Prepared by -
Zonal Education Office,Rathnapura.

Grade-12

1. Consider the following aggregate consumption function.

$$C = a + bY_d$$

In this equation,C is aggregate consumption expenditure and Y_d is the disposable national income level.Explain how you interpret the coefficients **a** and **b**.

2. What is meant by the equilibrium level of national income? What are the conditions required for the equilibrium level in national income in an open economy?

3. Suppose in a closed economy,planned saving is greater than planned investment.Under such situation explain how the economy achieves equilibrium level of national income.

4. The following macroeconomic data is given for a closed economy.(All figures are in Rs.million)

Consumption (C) $= 50 + 0.8Y_d$
Investment (I)   = 120
Government Purchases (G)   = 100
Taxes (T)   = 80
Government transfers to households (Tr)   = 55

(a) Determine the equilibrium level national income for this economy.

(b) If government purchases rises to Rs.200 million,what would be the new equilibrium level of national income?

(c) What is the value of the government expenditure multiplier?

(d) If the government intends to achieve a target level of the national income of Rs.2,000 million,what would be the required level of total government purchases?