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LAUREATE INTERNATIONAL UNIVERSITIESFINAL  
Examination Paper

(COVER PAGE)

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Session : August 2012

Programme : Foundation in Business Information Technology Programme

Course : ECO1208 : Macroeconomics

Date of Examination : 10 December 2012

Time : 8a.m. – 10a.m. Reading Time : Nil

Duration : 2 Hours

Special Instructions :

**SECTION A** consists of **TWENTY (20)** multiple-choice questions.

**SECTION B** consists of **FOUR (4)** questions. Answer any **THREE (3)** questions in the answer booklet. All questions carry equal marks.

Materials permitted : Nil

Materials provided : OMR Sheets

Examiner(s) : Sara Seah

Moderator : Dr. Song Saw Imm

*This paper consists of 7 printed pages, including the cover page.*

## INTI INTERNATIONAL COLLEGE PENANG

FOUNDATION IN BUSINESS INFORMATION TECHNOLOGY PROGRAMME (CFPI)  
ECO 1208: MACROECONOMICS  
FINAL EXAMINATION: AUGUST 2012 SESSION

## SECTION A

Instructions: This section consists of 20 questions. Answer ALL questions in the OMR sheet provided. All questions carry equal marks.

- 1) The goal of macroeconomics is
  - (A) to explain the workings of the stock market.
  - (B) to explain changes in the entire economy.
  - (C) to explain decision-making in businesses.
  - (D) to eliminate fluctuations in the business cycle.
  - (E) To explain the business life cycle.
  
- 2) Money spent on the purchase of a new house is included in GDP as a part of
  - (A) the consumption of private fixed capital.
  - (B) personal consumption expenditures.
  - (C) personal saving.
  - (D) investment.
  - (E) government expenditures.
  
- 3) Which of the following does NOT contribute to the production of the domestic output of an economy?

(A) A police officer	(D) An insurance agent
(B) A full-time student	(E) A teacher
(C) A soldier	
  
- 4) Nominal gross domestic product
  - (A) measures the change in inventories over the course of a year
  - (B) changes only when there is a change in output
  - (C) changes only when there is a change in the price level
  - (D) can change when there is a change in either output or the price level
  - (E) is a measure of the overall level of prices

- 5) The term “business cycle” refers to
- (A) movement in interest rates.
  - (B) changes in economic productivity.
  - (C) fluctuations in unemployment.
  - (D) fluctuations in aggregate measures of economic output.
  - (E) fluctuations in investment.
- 6) Which type of unemployment is the result of major changes in technology in the economy?
- (A) Structural unemployment
  - (B) Frictional unemployment
  - (C) Cyclical unemployment
  - (D) Seasonal unemployment
  - (E) Technological unemployment
- 7) Which of the following types of unemployment is macroeconomic policy specifically designed to combat?
- (A) Structural unemployment
  - (B) Frictional unemployment
  - (C) Cyclical unemployment
  - (D) Seasonal unemployment
  - (E) Technological unemployment
- 8) Rapid increases in the price level during periods of recession or high unemployment is known as
- (A) stagflation
  - (B) fine tuning
  - (C) stagnation
  - (D) inflation
  - (E) hyper inflation
- 9) If the CPI in year 1 equals 100 and the CPI in year 2 equals 104, it can be concluded that:
- (A) The rate of inflation from year 1 to year 2 is 4%.
  - (B) The rate of inflation from year 1 to year 2 is 104%
  - (C) The rate of deflation from year 1 to year 2 is 4%
  - (D) There was no inflation from year 1 to year 2.
  - (E) Year 2 is the base year.
- 10) During a period of high inflation:
- (A) Borrowers are better off because they can pay off their loans with currency that is worth less.
  - (B) Borrowers are worse off because they have to pay off their loans with currency that is worth more.
  - (C) Lenders are worse off because they cannot find anyone who wants a loan.
  - (D) Lenders are worse off because they are repaid with currency that is worth more.
  - (E) None of the above.

- 11) When the economy is at 'full employment' level of national income, this means that
- (A) there is a deficiency in demand.
  - (B) there is a natural rate of unemployment.
  - (C) the amount of money in the economy is at maximum level.
  - (D) the interest rate in the economy is at maximum level.
  - (E) the economy is in the recovery phase of the business cycle.
- 12) The slope of the consumption schedule or line for a given economy is the
- (A) average propensity to save.
  - (B) average propensity to consume.
  - (C) marginal propensity to save.
  - (D) marginal propensity to consume
  - (E) marginal propensity to tax

Possible Levels of Domestic Output and Income (GDP = DI)	Consumption
\$320	\$320
330	327
340	334
350	341
360	348
370	355
380	362

- 13) Refer to the above data. The MPS is:
- (A) 1/5.
  - (B) 2/5.
  - (C) 3/5.
  - (D) 3/10.
  - (E) 7/10.
- 14) If the MPS in an economy is 0.1, government could shift the aggregate demand curve rightward by \$40 billion by:
- (A) increasing government spending by \$40 billion.
  - (B) increasing government spending by \$4 billion.
  - (C) decreasing taxes by \$4 billion.
  - (D) increasing taxes by \$4 billion.
  - (E) Increasing both government spending and taxes by \$40 billion.
- 15) Which of the following will lead to an increase in the demand for money?
- (A) An increase in the interest rate
  - (B) An increase in the price level
  - (C) A decrease in the price level
  - (D) A decrease in the supply of money
  - (E) Both (A) and (B)

Questions 16 - 18 refer to the information below.

$$C = 60 + 0.6Y_d$$

$$I = 30$$

$$T = 0$$

- 16) The equilibrium level of income is
- |          |          |
|----------|----------|
| (A) 360. | (D) 135. |
| (B) 225. | (E) 90.  |
| (C) 200. |          |
- 17) In equilibrium the level of consumption spending will be
- |         |         |
|---------|---------|
| (A) 170 | (D) 215 |
| (B) 270 | (E) 195 |
| (C) 160 |         |
- 18) What is the value of the multiplier for this economy?
- |          |          |
|----------|----------|
| (A) 2.0  | (D) 3.15 |
| (B) 2.5  | (E) 1.66 |
| (C) 2.38 |          |

Questions 19 and 20 refer to the information below.

Employed	90,000
Unemployed	10,000
Working age population	200,000

- 19) What is the unemployment rate?
- |         |         |
|---------|---------|
| (A) 5%  | (D) 20% |
| (B) 10% | (E) 50% |
| (C) 11% |         |
- 20) What is the labour force participation rate?
- |         |         |
|---------|---------|
| (A) 5%  | (D) 45% |
| (B) 10% | (E) 50% |
| (C) 11% |         |

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## SECTION B

Instructions: This section consists of **FOUR (4)** questions. Answer any **THREE (3)** questions in the answer booklet provided. All questions carry equal marks.

## Question 1

The following is a list of figures for a given year in millions of dollars

	\$million
Consumer expenditure	45,000
Gross investment	33,000
Government expenditure	20,000
Imports	20,000
Exports	15,000
Net foreign factor income	3,000
Depreciation	4,000
Indirect business taxes	3,000
Subsidies	1,000

- (a) Calculate the following. Show all workings.
- (i) GDP at market price (3 marks)
- (ii) GNP at market price (3 marks)
- (iii) National income (3 marks)
- (b) List **THREE** purposes of measuring national income in the country. (3 marks)
- (c) Explain any **FOUR** shortcomings of GDP as a measure of an economy's standard of living. (8 marks)

## Question 2

- (a) Outline the **FOUR** functions of money. (10 marks)
- (b) With the aid of a numerical example, explain the money creation process. (10 marks)

## Question 3

- (a) Explain the three reasons given for the downward slope of the aggregate demand curve. (9 marks)

- (b) State whether the following events will cause a shift of the aggregate demand curve and in which direction. Explain your answers.
- (i) More funding for research and development in new technologies (2 marks)
  - (ii) Prices fall across several industries. (2 marks)
  - (iii) A reduction of personal income taxes. (2 marks)
- (c) Explain “cost-push” inflation using aggregate demand–aggregate supply analysis. (5 marks)

**Question 4**

- (a) Discuss the fiscal policies that the government can implement during (i) recession and (ii) high inflationary period. (11 marks)
- (b) Explain how the THREE principal tools of monetary policy can be used by the central bank. (9 marks)

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