



**INTI**  
**International College Penang**  
LAUREATE INTERNATIONAL UNIVERSITIES\*

FINAL  
Examination Paper

(COVER PAGE)

Session : August 2014

Programme : FOUNDATION IN BUSINESS INFORMATION TECHNOLOGY (CFPI)

Course : ECO1208: Macroeconomics

Date of Examination : December 5, 2014

Time : 8.00am – 10.00am Reading Time : Nil

Duration : 2 Hours

Special Instructions :

This paper consists of TWO(2) Sections, Section A and B. Answer all TWENTY (20) multiple choice questions in Section A and choose any THREE (3) questions in Section B.

Materials permitted :

Non-programmable scientific calculator

Materials provided :

Graph Paper

Examiner(s) : Mr. Yee Aik Phoay

Moderator : Dr. Goh Soo Khoon

This paper consists of 9 printed pages, including the cover page.

INTI INTERNATIONAL COLLEGE PENANG

FOUNDATION IN BUSINESS INFORMATION TECHNOLOGY PROGRAMME (CFP)

ECO 1208: MACROECONOMICS

FINAL EXAMINATION: AUGUST 2014 SESSION

**Section A (40 marks)**

**Instructions:** This section consists of **FORTY (40)** questions. Answer **ALL** questions in the OMR sheet provided.

1. Which of the following topics is **NOT** discussed in macroeconomics?
  - A. Falling labor force participation rate
  - B. The number of unemployed IT graduates
  - C. Percentage change in Consumer Price Index
  - D. Reasons why Malaysia's economic growth rate remains strong
  - E. Costs of rising economic growth
  
2. The value of pillow sold in Jaya Jusco minus the value of the pillow bought by Jaya Jusco equals to
  - A. Profits of Jaya Jusco
  - B. Market price of the pillow
  - C. Value added by Jaya Jusco
  - D. Depreciation of Jaya Jusco
  - E. Double counting by Jaya Jusco
  
3. In national income accounting, depreciation is also called as
  - A. Wear and tear
  - B. Capital consumption allowance
  - C. Capital reduction
  - D. Tax on capital goods
  - E. Inventory investment
  
4. Anna, an Australian citizen, works in Germany. The value added to production from her employment is included
  - A. Only in Australia GDP
  - B. Only in German GDP
  - C. In both Australia and Germany GDP
  - D. Neither in Australia nor Germany GDP
  - E. None of the above

5. Which of the following statements is **TRUE** concerning the consumption function?
- A. Consumption expenditures and disposable income are negatively related
  - B. The consumption function graph is horizontal
  - C. When disposable income rises, autonomous consumption will increase
  - D. Higher marginal propensity to consume will make the consumption function graph steeper
  - E. If consumption spending is greater than disposable income, there will be savings
6. The marginal propensity to consume out of disposable income in Country Z equals 0.80. If disposable income in the country reduces from \$50 000 to \$40 000, this will cause consumption expenditures to
- A. Rise by \$32 000
  - B. Rise by \$8 000
  - C. Fall by \$32 000
  - D. Fall by \$8 000
  - E. Fall to 80% of the total disposable income
7. The aggregate expenditures function might shift upwards when
- A. Government reduces corporate taxes
  - B. Government reduces spending
  - C. Business confidence reduces
  - D. Consumers expect price to be lower in future
  - E. Monetary policy contracts
8. In a 3 sector economy, the injections refer to
- A. C
  - B. C + I
  - C. C + I + G
  - D. S + T
  - E. I + G
9. The following information relates to a 2-sector economy:  
 $S = -\$5,000 + 0.25Y$ ,  $I = \$2,000$  and  $C = \$5,000 + 0.75Y$
- Determine the economy's equilibrium level of national income.
- A. \$3,000
  - B. \$7,000
  - C. \$10,000
  - D. \$28,000
  - E. \$40,000

10. Aggregate supply curves will shift to the left when
- A. Resource price decreases
  - B. Price level in the country decreases
  - C. Price level in the country increases
  - D. Workers become less productive
  - E. Producers anticipate that price will fall in the future
11. Assuming that government announces an expansionary fiscal policy in the short run, the country's equilibrium
- A. Price and national income increase
  - B. Price increases but national income decreases
  - C. Price drops but national income increases
  - D. Price remains the same but national income increases
  - E. Price increases but national income remains constant
12. Which of the following statements is correct?
- A. Current year's CPI minus previous year's CPI equals inflation rate
  - B. During inflation, the prices of all goods and services produced in the country rises
  - C. The basket of goods and services that is used to construct CPI consists of imported goods too
  - D. Rising price of machineries affects CPI directly
  - E. CPI falls when inflation rate falls
13. Sam anticipated inflation rate to be 2% but the actual inflation rate turn out to be 5%. Sam would gain if he is
- A. A borrower
  - B. A lender
  - C. Either a borrower or a lender
  - D. Saver
  - E. Fixed income earner

14. Refer to the following table.

Product	Base Year (2006)		2013	
	Quantity	Price	Quantity	Price
Meat	100	\$10	120	\$12
Potatoes	200	2	180	3

Assume the market basket for the consumer price index has two products; meat and potatoes; with the following values in 2006 and 2013 for price and quantity: The Consumer Price Index for 2013 equals

- A. 125  
 B. 129  
 C. 135  
 D. 141  
 E. 153
15. Discouraged workers are
- A. Workers who have a part time job but want a full time job  
 B. Workers who find their current jobs unfulfilling and are considering a job change  
 C. Workers who have consistently been looking for work for more than 4 weeks  
 D. Workers who have stopped looking for work because they believe there are no jobs for them.  
 E. None of the above.
16. Refer to the following information.

Total population	20,000
Working-age population	16,000
Labor force	11,000
Employment	8,000

What's the country's unemployment rate?

- A. 0.30%  
 B. 27.27%  
 C. 30.00%  
 D. 72.72%  
 E. 80.00%

17. During upturn, a country's cyclical unemployment rate is likely to \_\_\_\_\_
- Increase
  - Decrease
  - Remain constant
  - Reach zero
  - Change from negative to positive.
18. The statement, "My iPhone is worth RM2080" represents money's function as
- A medium of exchange
  - A unit of account
  - A store of value
  - A standard of deferred payment
  - A goods changer
19. When the interest rate in the money market is lower than the equilibrium level
- The money supply curve will become vertical
  - The quantity supplied of money is greater than the quantity demanded
  - Excess demand for money arises
  - Asset demand for money decreases
  - Central Bank has to contract the money supply
20. Consider the T-account for National City Bank.

Assets		Liabilities	
Reserves	\$10,000	Deposits	\$100,000
Loans	\$90,000		

If the required reserve ratio is changed from 10 percent to 8 percent,

- The bank has to call back the loans
- No more excess reserves are available
- Money supply in the country contracts
- Deposits need to be reduced
- Bank will be able to loan out another \$2,000

**Section B (60 marks)**

**Instructions:** This section consists of FOUR (4) questions. Answer any **THREE (3)** out of the FOUR questions. Each question carries 20 marks.

**Question 1**

The following table shows the aggregate demand and short run aggregate supply in Japan. Based on the estimates of the economists, Japan's potential real GDP is 600 trillion yen.

Price level	Real GDP demanded	Real GDP supplied in the short run
(trillions of 2000 yen)		
75	600	400
85	550	450
95	500	500
105	450	550
115	400	600
125	350	650
135	300	700

- (a) Plot the aggregate demand and aggregate supply curve on the same diagram. On the diagram, show the country's equilibrium price level and real GDP. (4 marks)
- (b) State the relationship between the country's price level and real GDP demanded. (1 mark)
- (c) Why is Japan's price level and real GDP demanded related in the way that you state in part (b)? Provide **THREE (3)** reasons for your answer. (9 marks)
- (d) If Japan government intends to reach the potential real GDP, explain the fiscal policy that the government should consider using to achieve this goal. Support your answer with a suitable diagram. (6 marks)

**Question 2**

The following table shows the CPI of Country Z, a hypothetical country.

Year	2006	2007	2008	2009	2010
CPI	98	95	100	105	103

- (a) Calculate the country's inflation rate from year 2007 to 2011. (8 marks)
- (b) State the year with the highest deflation rate. (2 marks)
- (c) Using AD-AS diagram, explain the **TWO (2)** major types deflation. (10 marks)

**Question 3**

- (a) With the aid of a diagram, describe the asset demand for money. (4 marks)

The following table illustrates the **first three rounds of the full credit creation process** that takes place in the United States when \$20,000 of newly print money is deposited into the banking system.

	Received deposits	Required reserves	Excess reserves	Loans created
Bank A	\$20,000		\$14,000	
Bank B				
Bank C				

[Note: All banks in the United States adopt the same required reserve ratio policy and there is no leakage from the banking system.]

- (b) Based on the information given, calculate the banks' required reserve ratio. (2 marks)
- (c) Copy this whole table into your answer booklet and fill in the missing figures. Use different ink (do not use red) for your answers or highlight them. (5 marks)
- (d) Explain **THREE (3)** reasons that may prevent the full credit creation process from taking place. (9 marks)

**Question 4**

- (a) Using examples compare frictional unemployment and structural unemployment. Provide any **THREE (3)** points for your answer. (8 marks)
- (b) Explain how Central Bank uses the **THREE (3)** tools of monetary policy to reduce cyclical unemployment in the country. (12 marks)

**~ The End ~**  
*ECO151(F)August2014*