



**INTI**

INTERNATIONAL COLLEGE PENANG (507232-U)

LAUREATE INTERNATIONAL UNIVERSITIES

FINAL  
Examination Paper

(COVER PAGE)

Session : AUGUST 2016

Programme : FOUNDATION IN BUSINESS INFORMATION TECHNOLOGY

Course : ECO1208: MACROECONOMICS

Date of Examination : 9 December 2016 (Friday)

Time : 5:00pm - 7:00pm Reading Time : Nil

Duration : 2 Hours

Special Instructions :

This paper consists of **TWO (2)** sections.

**Section A:** Answer **ALL** questions in the OMR sheet provided.

**Section B:** Answer any **THREE (3)** out of the **FOUR** questions.

Materials permitted :

Nil

Materials provided :

Nil

Examiner(s) : 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 PROGRAMME  
ECO 1208: MACROECONOMICS  
FINAL EXAMINATION: AUGUST 2016 SESSION

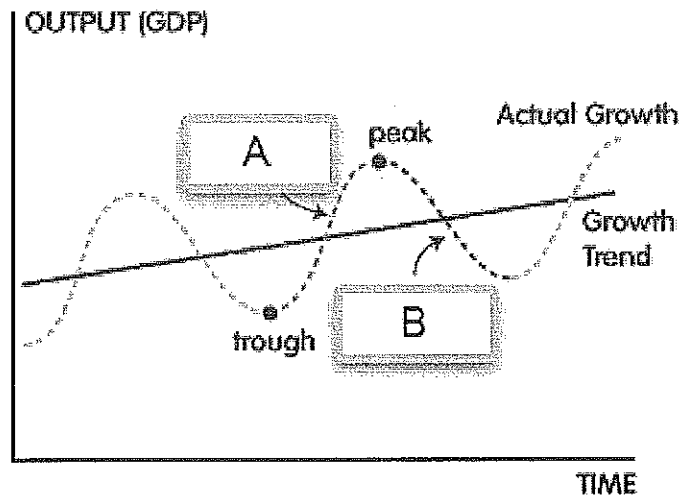
**SECTION A (40%)**

Instructions: This section consists of 20 questions. Answer **ALL** questions in the OMR sheet provided below. **Each question carries 2 marks.**

- 1) Which of the following cannot be suitably classified as a macroeconomics goal?
  - (A) Lower unemployment rate.
  - (B) Lower inflation rate.
  - (C) Lower car pricing.
  - (D) Higher economic growth.
  - (E) Stronger exports for the country.
  
- 2) Which of these is considered as a final good?
  - (A) high school revision books purchased by Popular bookstore
  - (B) dictionaries purchased by students of INTI Subang College
  - (C) cheese purchased by McDonald's outlets
  - (D) Nike shoes purchased by Jusco departmental stores
  - (E) potatoes purchased by local Indian restaurants
  
- 3) The value of final goods produced by a Malaysian in New Zealand is part of
  - (A) Gross Domestic Product of Malaysia
  - (B) Gross Domestic Product of New Zealand.
  - (C) Gross National Product of New Zealand.
  - (D) Net Domestic Product of Malaysia.
  - (E) Real Gross Domestic Product of Malaysia.
  
- 4) Nominal GDP does not reflect a country's actual growth because nominal GDP has
  - (A) ignored the value of intermediate goods.
  - (B) included the value of final goods produced from the underground economy.
  - (C) counted the transactions for second-hand items two times.
  - (D) failed to remove the effects of inflation.
  - (E) ignored the transactions for second-hand items.

- 5) The final value of vegetables grown in the country for self-consumption
- (A) causes the reported GDP to increase.
  - (B) causes the reported GDP to decrease.
  - (C) has effects on the reported GDP but the effects cannot be determined.
  - (D) does not affect the reported GDP.
  - (E) should be excluded from the reported GDP.
- 6) In a 3-sector economy, savings and taxes are considered as \_\_\_\_\_ in a circular flow diagram.
- (A) wastage
  - (B) multipliers
  - (C) tools of fiscal policy
  - (D) leakages
  - (E) injections
- 7) Given that marginal propensity to consume equals to 0.8 in a 2-sector economy, we can conclude that
- (A) a \$80 increase in consumption expenditures increases real GDP by \$8.
  - (B) the average propensity to save equals 0.2.
  - (C) the average propensity to consume equals 0.2.
  - (D) the marginal propensity to save equals to  $\frac{1}{0.8}$ .
  - (E) None of the above.
- 8) Which of the following factors is likely to increase the country's consumption expenditures?
- (A) contractionary fiscal policy
  - (B) expansionary monetary policy
  - (C) lower inflation in the future
  - (D) households have high debt level
  - (E) high interest rates
- 9) In the case of balanced budget multiplier, national income will increase by \_\_\_\_\_ when both government expenditures and tax increase by \$2,000.
- (A) \$1,000
  - (B) \$2,000
  - (C) \$3,000
  - (D) \$4,000
  - (E) \$10,000

- 10) Refer to the following chart.



Stage A is called \_\_\_\_\_ and during stage, the country's \_\_\_\_\_ is falling.

- (A) contraction; structural unemployment  
 (B) expansion; seasonal unemployment  
 (C) contraction; seasonal unemployment  
 (D) expansion; cyclical unemployment  
 (E) None of the above.
- 11) At full employment,
- (A) the country's unemployment rate is zero.  
 (B) the country faces cyclical unemployment.  
 (C) only structural unemployment occurs in the country.  
 (D) both frictional and structural unemployment occur in the country.  
 (E) the country's unemployment rate will be less than 1%.
- 12) Consumer Price Index measures the costs of:
- (A) a basket of goods and services purchased by the households.  
 (B) a basket of exported goods.  
 (C) a basket of imported goods purchased by the households.  
 (D) owning a house in the country.  
 (E) living which all households in the country follow.
- 13) Inflation that is higher than expected benefits the \_\_\_\_\_ but disadvantages the \_\_\_\_\_.
- (A) debtors; creditors  
 (B) creditors; debtors  
 (C) workers; employers  
 (D) consumers; sellers  
 (E) lecturers, students

- 14) Cost push inflation occurs when
- (A) the government increases the income-tax rate.
  - (B) the producers' confidence increases.
  - (C) the prices of major resources in the country increase.
  - (D) the technology level increases.
  - (E) the fiscal policy is expansionary.
- 15) Currently, commercial Bank A has \$50,000 of demand deposits and reserves of \$30,000. Assuming that Bank A sets 10% as the reserve requirement, the bank has
- (A) no excess reserves.
  - (B) excess reserves of \$30,000.
  - (C) excess reserves of \$25,000.
  - (D) excess reserves of \$10,000.
  - (E) excess reserves of \$5,000.
- 16) Which of the following statements is correct?
- (A) The interest rate and the amount of money demanded are negatively related.
  - (B) The money demand curve is upward sloping.
  - (C) The money demand curve is vertical.
  - (D) Money demand consists of speculative demand only.
  - (E) National income is labeled on the x-axis of money demand curve.
- 17) If the Central Bank sets 20% as the reserve requirement ratio, what is the country's money multiplier?
- (A) 5
  - (B) 4
  - (C) 3
  - (D) 2
  - (E) 1
- 18) Tight monetary policy helps to
- (A) reduce country's unemployment rate.
  - (B) reduce country's inflation rate.
  - (C) increase country's economic growth rate.
  - (D) increase country's tax revenue.
  - (E) increase money supply.

- 19) For net exports to be negative,
- I. imports are lesser than exports
  - II. imports are greater than exports
  - III. income earned by the citizens abroad is lesser than income earned by foreigners in the country
  - IV. income earned by the citizens abroad is greater than income earned by foreigners in the country
- (A) I only
  - (B) II only
  - (C) II and IV
  - (D) I and III
  - (E) I, II and III.
- 20) An economic boom in China is likely to cause a(n):
- (A) decrease in Malaysia exports and Malaysia aggregate demand.
  - (B) increase in Malaysia exports and Malaysia aggregate demand.
  - (C) increase in Malaysia exports but decrease Malaysia aggregate demand.
  - (D) decrease in Malaysia imports and Malaysia aggregate demand.
  - (E) increase in Malaysia imports and Malaysia aggregate demand.

**SECTION B (60%)**

Instructions: Answer any **THREE (3)** questions out of the four questions provided. **Each question carries 20 marks.**

1. The following information relates to Country H, a 3-sector economy.

Consumption expenditure function	$C = \$1,000 + 0.75Y_d$
Investment expenditure function	$I = \$2,000$
Government expenditure function	$G = \$1,000$
Tax function	$T = \$800$

Note:  $Y$  = national income,  $Y_d$  = disposable income

- (a) Calculate the country's equilibrium level of national income. (4 marks)
- (b) Country H achieves full employment when national income equals to \$20,000.
- i. Using the information given and your answer to part (b), is Country H facing a deflationary gap or inflationary gap? State your answer. (2 marks)
  - ii. Illustrate the gap using the Keynesian aggregate expenditures-output diagram. (5 marks)
  - iii. If the gap were to be closed, what type of fiscal policy would you suggest and why? Briefly explain your answer. (3 marks)
  - iv. Determine the new level of government expenditures that will close the gap. (6 marks)

2. The following table illustrates the Consumer Price Index (CPI) of Malaysia and the annual nominal rental received by Swee Nee from an apartment that she owns in Sungai Ara, Penang.

Year	CPI	Annual nominal rental
2009	98.3	RM8,400
2010	100.0	
2011	103.2	
2012	104.9	
2013	107.1	

*Note: Data is sourced from the Department of Statistics, Malaysia*

- (a) Referring to the data given, state the base year for constructing the CPI. (2 marks)
- (b) Calculate the country's inflation rate in year 2011 and 2012. Based on your calculation, which year has the higher inflation rate? (5 marks)
- (c) Swee Nee had agreed to rent out her apartment to John, a foreign student studying in INTI Penang from 2009 until 2013. Both of them agreed to increase the annual nominal rental by 2% every year until 2013.
- i. Briefly explain the difference between nominal rental and real rental. (4 marks)
  - ii. Calculate the annual nominal rental received by Swee Nee in year 2011 and 2012. (4 marks)
  - iii. Calculate the annual real rental received by Swee Nee in year 2011 and 2012. Is Swee Nee better off in 2012? (5 marks)
3. (a) With the help of money demand and money supply curves, explain how Central Bank raises interest rates by using open market operations. (10 marks)
- (b) Explain the impact of higher interest rate on any **TWO (2)** components of a country's aggregate demand. (4 marks)
- (c) Starting from a full employment position, explain and illustrate the impact of higher interest rate on a country's equilibrium national income and price with the aid of suitable diagrams. (6 marks)

4. (a) Briefly explain why cyclical and structural unemployment occurs. (6 marks)
- (b) The government of Country B is considering two different policies currently.  
Policy A: Increase the taxes on imported raw materials  
Policy B: Increase the taxes on imported final goods  
How do both policies affect the cyclical unemployment of Country B?  
Use an AD-AS diagram to illustrate and explain your answer. (10 marks)
- (c) Describe TWO (2) reasons why full employment is important. (4 marks)

—THE END—

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