

FINAL
Examination Paper

(COVER PAGE)

Session : April 2016

Programme : Foundation in Business Information Technology (CFPI)

Course : ECO1208: Macroeconomics

Date of Examination : 28 July 2016, Thursday

Time : 8.00am – 10.00am

Duration : 2 Hours Reading Time : Nil

Special Instructions :

SECTION A: Answer ALL questions.

SECTION B: Choose THREE (3) out of FOUR (4) questions.

IMPORTANT NOTE : THIS PAPER SHOULD NOT BE TAKEN OUT OF THE EXAMINATION HALL

Materials Permitted : Nil

Materials Provided : OMR Sheets & Answer Booklet

Examiner(s) : Mr. Khor Kok Chin

Moderator : Dr. Goh Soo Khoo

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

INTI INTERNATIONAL COLLEGE

FOUNDATION IN BUSINESS INFORMATION TECHNOLOGY (CFPI)

ECO1208: MACROECONOMICS

FINAL EXAMINATION: APRIL 2016 SESSION

Section A (40 marks)

Instructions: This section consists of **TWENTY (20)** questions. Answer **ALL** questions in the OMR sheet provided.

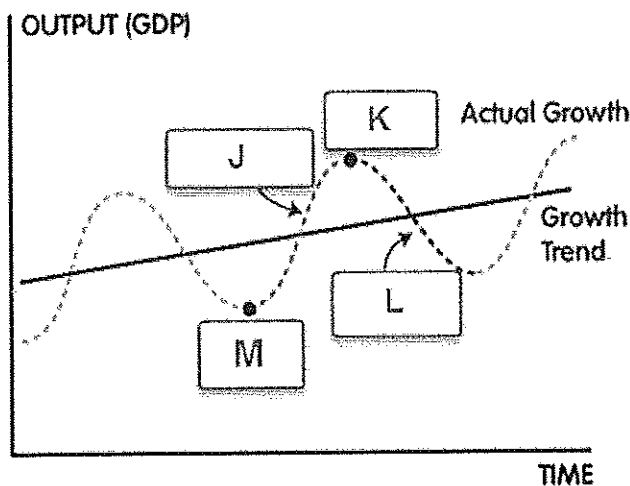
- 1) Which of the following is included in the calculation of GDP Malaysia?
- I. A Proton car manufactured in Malaysia
 - II. The money spent by an Australian on Maxis data plan while he is working in Malaysia
 - III. The money spent by a Malaysian to purchase an I-phone
 - IV. The car tires purchased by Toyota car manufacturer in Malaysia
- (A) I only.
 - (B) I and II.
 - (C) II and III.
 - (D) I, II and III.
- 2) The _____ is an example of a macroeconomics topic.
- (A) rising price of housing in Malaysia
 - (B) Malaysia's inflation rate
 - (C) effect of import tax on sales of Proton cars
 - (D) lower sales of Sony smartphones in Malaysia
- 3) Compared to nominal GDP, real GDP is a better measurement for economic growth because
- (A) the value of depreciation is excluded.
 - (B) a country's real level of pollution is considered.
 - (C) the inflationary effects are removed.
 - (D) value of intermediate goods are not counted in real GDP.
- 4) In a 2 sector economy, _____ are considered as the leakages from the economy.
- (A) savings
 - (B) consumption expenditures
 - (C) taxes
 - (E) investment

- 5) The following table shows the savings of the households in a 2-sector economy.

Disposable income (Y_d)	Savings
\$0	-\$2,000
10,000	0
20,000	2,000

When Y_d equals to \$10,000, the average propensity to consume equals to _____ and average propensity to save equals to _____.

- (A) 1; 0
 (B) cannot be determined; 0
 (C) 10,000; 0
 (D) 0.8; 0.2
- 6) In order to close an inflationary gap, government can consider implementing _____.
- (A) balanced budget policy
 (B) expansionary fiscal policy by increasing both government spending and taxes
 (C) expansionary fiscal policy by increasing government spending and reducing taxes
 (D) contractionary fiscal policy by reducing government spending and raising taxes
- 7) The following diagram show the different phases of a country's business cycle.



Phase L of the business cycle is also known as _____.

- (A) Trough
 (B) boom
 (C) repercussion
 (D) Contraction

- 8) Which of the following statements is correct about spending multiplier?
- I. If a \$4.00 decrease in spending causes the equilibrium national income to decrease by \$8.00, the multiplier value is 2.
 - II. If an \$8.00 increase in spending causes the equilibrium national income to increase by \$32.00, the multiplier value is 4.
 - III. If the marginal propensity to consume decreases from 0.75 to 0.5, the magnitude of the multiplier value will be smaller.
- (A) Only I is correct.
 - (B) Both I and II are correct.
 - (C) Both I and III are correct.
 - (D) All I, II and III are correct.
- 9) After 9 months of job search, Mrs. Lim has made a decision to stop looking for jobs. How does Mrs. Lim's decision affect the country's labour statistics?
- (A) The country's unemployed remains the same.
 - (B) The country's unemployed increases.
 - (C) The country's labour force decreases.
 - (D) The working age population decreases.
- 10) A country's frictional unemployment rate plus structural unemployment rate equals to _____.
- (A) cyclical unemployment
 - (B) natural rate of unemployment
 - (C) recessionary gap
 - (D) labor force
- 11) Given an inflation rate of 2% and nominal interest rate of 5%, we can conclude that real interest rate is _____.
- (A) 7%
 - (B) 5%
 - (C) 3%
 - (D) 2%
- 12) The CPI for year 2012 is 95. Which of the following statements is **CORRECT**?
- (A) In year 2012, the average prices of goods is 5% lower than the base year.
 - (B) Compared to year 2011, there is a deflation in year 2012.
 - (C) A consumer has to spend \$95 to purchase the basket of goods.
 - (D) The inflation rate in year 2012 is 95%.

- 13) The demand for money as a medium of exchange is also known as _____.
- (A) transactions demand for money
 - (B) asset demand for money
 - (C) precautionary demand for money
 - (D) liquidity preference
- 14) When the Central Bank decides to lower the reserve requirement ratio, we would expect _____ in the money market.
- (A) interest rate to rise due to a shortage of money.
 - (B) interest rate to fall due to a shortage of money.
 - (C) interest rate to rise due to a surplus of money.
 - (D) interest rate to fall due to a surplus of money

15)

Balance Sheet of Commercial Bank A

Assets		Liabilities	
Reserves	\$5,000	Checkable Deposits	\$10,000
Loans	\$5,000		

Bank A has a policy of maintaining reserve ratio at 0.2. Based on this ratio, Bank A

- _____.
- (A) has an excess reserves of \$5,000
 - (B) has an excess reserves of \$3,000
 - (C) can lend out \$5,000 more
 - (D) must keep only \$3000 as required reserves
- 16) Which of the following would cause an upward movement along the aggregate supply curve?
- I. better technology
 - II. discovery of new resources
 - III. workers become more productive
- (A) I only.
 - (B) II only.
 - (C) III only.
 - (E) None of the above

- 17) In the short run, expansionary monetary policy will cause _____.
- (A) the country's real GDP to rise but price level to fall
 - (B) the country's real GDP and price level to fall
 - (C) the country's real GDP and price level to rise
 - (D) the country's real GDP to fall but price level to rise
- 18) A demand pull inflation may occur when _____.
- (A) interest rates fall
 - (B) wages fall
 - (C) future price is predicted to fall
 - (D) national income falls
- 19) The aggregate demand curve is assumed to be _____ in the short run.
- (A) vertical
 - (B) horizontal
 - (C) upward sloping
 - (D) downward sloping
- 20) Compared to last year, Country J's exports have increased by \$500million. At the same time, the country's imports rise by \$600million. As a result, _____.
- (A) the country's aggregate demand curve shifts to the right
 - (B) the country's aggregate demand curve shifts to the left
 - (C) the country's aggregate supply curve shifts to the left
 - (D) the country's aggregate supply curve shifts to the right

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.

1. Country Z is a 3-sector economy with the following aggregate expenditures functions:

$$C = \$200 + 0.9Y_d$$

$$T = \$80 \quad I = \$600 \quad G = \$400$$

- (a) Identify the leakages and the injections from the functions above. (4 marks)
- (b) Define equilibrium level of national income. (2 marks)
- (c) Using the information provided, determine Country Z's equilibrium level of national income. (3 marks)
- (d) Illustrate your answer to part (c) in a diagram. [Note: No explanations are needed] (4 marks)
- (e) Currently the government is considering two policies:
 Policy A: Raises its government expenditures by \$50
 Policy B: Cuts its taxes by \$50
- Which policy has a bigger effect on the country's level of equilibrium national income? Use multiplier formula to support your answer. (7 marks)

2. (a) Using examples, explain structural and frictional unemployment. (8 marks)
- (b) Explain how open market operation is used to reduce the country's cyclical unemployment. [Note: Include the money market diagram and the AD-AS diagram in your answer.] (12 marks)

3. Country J is a simple economy. People in this country consume only 3 goods, non-organic vegetables, organic vegetables and clothing. In order to calculate the CPI, the government of country J uses a basket of goods that consists of 80 units of non-organic vegetables, 25 units of organic vegetables and 10 units of clothing. Base year has been set as Year 2000.

The prices of these goods from 2001 to 2003 are shown below:

	Non-organic vegetables	Organic vegetables	Clothing
2000 price per unit	\$1	\$2	\$20
2001 price per unit	\$2	\$2	\$18
2002 price per unit	\$3	\$4	\$20

- (a) Calculate the following:
- i) the CPI for year 2001 and 2002 (5 marks)
 - ii) the inflation rate for year 2001 and 2002 (4 marks)
- (b) Explain how can Inflation cause income redistribution in the society? (5 marks)
- (c) The following table shows the annual income of 3 individuals in Country J.

	Jim	Sue	Angeline
2000	\$50,000	\$40,000	\$80,000
2001	\$50,000	\$50,000	\$85,000

How does inflation in year 2001 affect the 3 individuals' real income? Did their real income increase, decrease or remain the same? Support your answer with some calculations.

(6 marks)

4. (a) Explain the term macroeconomic equilibrium with the aid of an AD-AS diagram. (5 marks)
- (b) How does each of the following event affect a country's AD curve? Briefly explain. [Note: You need to mention the component of AD that is affected in your explanations.]
- i) the government has decided to increase both income taxes and corporate taxes (3 marks)
 - ii) producers predict that the future economy will strengthen (3 marks)
 - iii) Government instruct Bank Negara Malaysia to decrease interest rate

(3 marks)

- (c) Why does government use policies to influence aggregate demand? Briefly explain **THREE (3)** reasons.

(6 marks)

~ The End ~

ECO1208(F)/April 2016/Khor Kok Chin

