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INTERNATIONAL COLLEGE PENANG (507232-U)
LAUREATE INTERNATIONAL UNIVERSITIES

RESIT
Examination Paper

(COVER PAGE)

Session : JANUARY 2014

Programme : FOUNDATION IN BUSINESS INFORMATION
TECHNOLOGY PROGRAMME (CFPI)

Course : ECO 1208 : MACROECONOMICS

Date of Examination : 13 March 2014

Time : 8.00am – 10.00pm Reading Time : Nil

Duration : 2 Hours

Special Instructions :

This paper consists of TWO (2) questions. Answer ALL questions from SECTION A and any
THREE (3) questions from SECTION B in the answer booklet provided.

Materials permitted

Nil

Materials provided :

Non-Programmable Calculator

Examiner(s) :

SARA SEAH

Moderator :

KHOR KOK CHIN

This paper consists of 8 printed pages, including the cover page

INTI INTERNATIONAL COLLEGE PENANG
 FOUNDATION IN BUSINESS INFORMATION TECHNOLOGY PROGRAMME (CFPI)
 ECO 1208: MACROECONOMICS
 RESIT EXAMINATION: JANUARY 2014 SESSION

SECTION A

Instructions: This section consists of 25 questions. Answer ALL questions in the OMR sheet provided. All questions carry equal marks.

- 1) The goals of macroeconomic policy include:

(A) high employment	(D) choices (A) and (C)
(B) low unemployment	(E) all of the above.
(C) stable prices	

- 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 (D) Seasonal unemployment
 (B) Frictional unemployment (E) Technological unemployment
 (C) Cyclical unemployment
- 7) Which of the following types of unemployment is macroeconomic policy specifically designed to combat?
- (A) Structural unemployment (D) Seasonal unemployment
 (B) Frictional unemployment (E) Technological unemployment
 (C) Cyclical unemployment
- 8) A recent graduate not yet employed but searching for work is considered
- (A) structurally unemployed.
 (B) frictionally unemployed.
 (C) cyclically unemployed.
 (D) long-term unemployed.
 (E) not yet in the labour force.
- 9) A working mother that quits her job to return to college is considered to be
- (A) employed. (D) a discouraged worker.
 (B) structurally unemployed. (E) not in the labour force.
 (C) frictionally unemployed.

Questions 10 and 11 refer to the information below.

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

- 10) What is the unemployment rate?
- (A) 5% (D) 20%
 (B) 10% (E) 50%
 (C) 11%
- 11) What is the labour force participation rate?
- (A) 5% (D) 45%
 (B) 10% (E) 50%
 (C) 11%
- 12) Rapid increases in the price level during periods of recession or high unemployment is known as
- (A) stagflation (D) inflation
 (B) fine tuning (E) hyper inflation
 (C) stagnation

- 13) 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.
- 14) 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.
- 15) 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

- 16) Refer to the above data. The MPC is:
- (A) 1/5.
 - (B) 2/5.
 - (C) 3/5.
 - (D) 3/10.
 - (E) 7/10.
- 17) The inverse relationship between the general price level and real GDP is depicted by
- (A) a downward-sloping demand curve for an individual good.
 - (B) the aggregate demand curve.
 - (C) an upward-sloping demand curve.
 - (D) the aggregate supply curve.
 - (E) a vertical long-run aggregate supply curve.

- 18) Which of the following does not account for a movement along a given AD curve?
- (A) The wealth effect
 - (B) The interest rate effect
 - (C) The real-balance effect
 - (D) The international trade effect
 - (E) The effect of an increase in government spending
- 19) If consumers become more optimistic about their future economic well-being, we would expect
- (A) the AD curve to shift to the left.
 - (B) the AD curve to shift to the right.
 - (C) a movement to the left along the AD curve.
 - (D) a movement to the right along the AD curve.
 - (E) the AD curve to be unchanged, but the AS curve to shift to the right.
- 20) Which of the following will not shift the short-run aggregate supply curve?
- (A) A change in technology
 - (B) A change in price expectations
 - (C) A change in wage rates
 - (D) A change in the domestic price level
 - (E) A change in raw material supplies
- 21) The short-run aggregate supply curve shifts to the left when
- (A) production technology increases.
 - (B) equipment prices rise.
 - (C) people expect lower inflation rates.
 - (D) productivity increases.
 - (E) wages are reduced.
- 22) What is one significant characteristic of fractional reserve banking?
- (A) Banks are not subject to "panics" or "runs."
 - (B) Banks use deposit insurance for loans to customers.
 - (C) Bank loans will be equal to the amount of gold on deposit.
 - (D) Banks can create money through lending their reserves.
 - (E) Banks can lend 100 percent of deposit.
- 23) A bank has \$2 million in checkable deposits. In the bank's balance sheet, this would be an example of:
- (A) an asset
 - (B) a liability
 - (C) net worth
 - (D) capital stock
 - (E) owner's equity

- 24) A commercial bank has actual reserves of \$50,000 and checkable deposits of \$200,000, and the required reserve ratio is 20%. The excess reserves of the bank are:
- (A) \$10,000
 - (B) \$20,000
 - (C) \$30,000
 - (D) \$40,000
 - (E) \$50,000
- 25) A commercial bank has checkable-deposit liabilities of \$50,000 and a reserve ratio of 20 percent. What is the amount of required reserves?
- (A) \$10,000
 - (B) \$50,000
 - (C) \$100,000
 - (D) \$250,000
 - (E) \$1 million

-END OF SECTION A-

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
Government expenditure	20,000
Gross investment	33,000
Consumer expenditure	50,000
Imports	15,000
Exports	20,000
Net foreign factor income	7,000
Depreciation	5,000
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) With the aid of examples, explain any **FOUR** shortcomings of GDP as a measure of an economy's standard of living. (16 marks)

Question 2

- (a) Outline the **FOUR** functions of money. (12 marks)
- (b) Explain why people demand for money. (9 marks)
- (c) Distinguish between fiat money and commodity money. (4 marks)

Question 3

Suppose $C = 300 + 0.8Y_d$, $I = 80$, $G = 100$, and $T = 20$

- (a) Derive AE function and draw a graph of AE curve for this economy and label it AE. (4 marks)
- (b) Derive the saving function. (3 marks)
- (c) Determine the equilibrium level of national income using both income-expenditure and leakage-injection approaches. Show all workings. (8 marks)
- (d) What is the value of the simple multiplier in this model? Explain what it means. (5 marks)
- (e) If investment expenditure increases by 10, what is the new equilibrium national income level? Use the multiplier to derive your answer. (5 marks)

Question 4

- (a) Discuss the fiscal policies that the government can implement during (i) recession and (ii) high inflationary period. (10 marks)
- (b) Explain how the THREE principal tools of monetary policy can be used by the central bank. (15 marks)

- END OF PAPER -

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