



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

FINAL  
Examination Paper

(COVER PAGE)

Session : JANUARY 2015

Programme : FOUNDATION IN BUSINESS INFORMATION TECHNOLOGY  
(CFPI)

Course : ECO1208: MACROECONOMICS

Date of Examination : 17 March 2015

Time : 11:00am – 1:00pm Reading Time: Nil

Duration : 2 Hours

Special Instructions :

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

**Students are not allowed to remove this question paper from the examination venue.**

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 10 printed pages, including the cover page.*

## INTI INTERNATIONAL COLLEGE PENANG

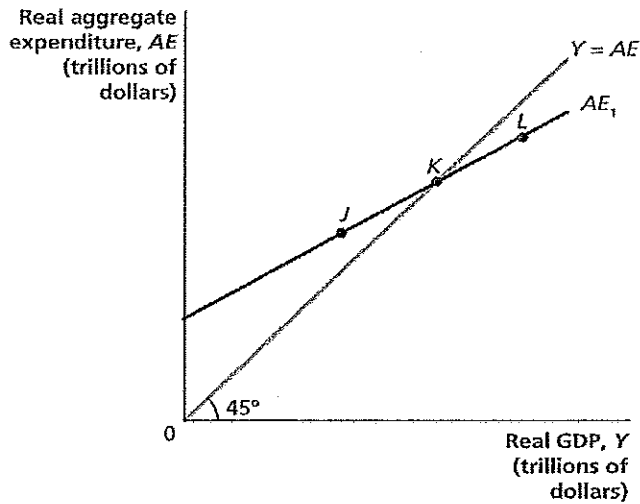
FOUNDATION IN BUSINESS INFORMATION TECHNOLOGY PROGRAMME (CFPI)  
ECO 1208: MACROECONOMICS  
FINAL EXAMINATION: JANUARY 2015 SESSION**Section A (40 marks)**

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

1. Malaysia experiences economic growth when
  - A. nominal GDP rises.
  - B. GDP deflator is greater than 100.
  - C. real NDP minus real GDP is positive.
  - D. real GDP minus nominal GDP is positive.
  - E. real GDP rises.
  
2. Siew Lee is a Malaysian. Currently, she is sponsored by the government to study in INTI International University. The Malaysian government gives Siew Lee RM500 every month for meal allowances. The RM500 passed to Siew Lee is recorded as
  - A. consumption expenditures on goods.
  - B. consumption expenditures on services.
  - C. investment expenditures on education.
  - D. government expenditures.
  - E. transfer payments.
  
3. Compared to 2013, the exports of Country A has risen by RM8 million and its imports has decreased by RM8 million. Assuming that other values remain constant, the GDP of Country A will \_\_\_\_\_ in 2014.
  - A. increase by RM8 million
  - B. decrease by RM8 million
  - C. increase by RM16 million
  - D. decrease by RM16 million
  - E. remain unchanged
  
4. Which of the following cause the unemployment rate to be overstated?
  - A. Higher inflation
  - B. The number of discouraged workers increases
  - C. Population of people aged 18 years old rises
  - D. More people who prefer full time job have to work part time
  - E. More full time students wrongly report themselves as job seekers

5. Cyclical unemployment occurs when
- A. there is a mismatch between the skills of workers and the requirements of the employers.
  - B. aggregate expenditures fall in the country.
  - C. workers spend time to search for their preferred jobs.
  - D. inflation goes up and down.
  - E. fewer women prefer to work.
6. If planned expenditures in a 2-sector economy are less than the country's real GDP, how will the economy reach macroeconomic equilibrium?
- A. Inventories will unexpectedly reduce and real GDP will rise.
  - B. Inventories will unexpectedly reduce and real GDP will fall.
  - C. Inventories will unexpectedly increase and real GDP will rise.
  - D. Inventories will unexpectedly increase and real GDP will fall.
  - E. Real GDP will remain unchanged.
7. If the MPS is 0.25 in a 2-sector economy, then a \$10.00 decrease in disposable income will
- A. increase consumption by \$7.50.
  - B. increase consumption by \$2.50.
  - C. decrease consumption by \$7.50.
  - D. decrease consumption by \$2.50.
  - E. increase saving by \$2.50 as households cut down consumption by \$2.50.
8. Which of the following statements is true about government expenditures?
- A. Government expenditures are injections in a 3-sector economy.
  - B. Contractionary fiscal policy can be done by increasing government spending.
  - C. Government's spending on imports will increase the country's net exports.
  - D. Answer A and B are true.
  - E. Answer B and C are true.

9. Refer to the following diagram.



At what point are aggregate expenditures greater than real GDP?

- A. Point J  
 B. Point K  
 C. Point L  
 D. Point J, K and L  
 E. None of the above
10. The short run aggregate supply curve is
- A. horizontal.  
 B. vertical.  
 C. upward sloping.  
 D. downward sloping.  
 E. U-shaped.
11. The short run aggregate supply curve shifts rightwards when
- A. interest rates rise.  
 B. wage rate rises.  
 C. productivity rises.  
 D. price of raw material rises.  
 E. price level in the country rises.

12. How does a decrease in aggregate demand affect a country's macroeconomic equilibrium in the *long run*?
- The price level will fall and the level of GDP will be unaffected.
  - The price level will fall and the level of GDP will fall.
  - The price level will fall and the level of GDP will increase.
  - The price level will rise and the level of GDP will fall.
  - The price level will rise and the level of GDP will be unaffected.
13. When the economy achieves macroeconomic equilibrium, the economy can be producing at:
- below full employment.
  - full employment.
  - above full employment.
- i only
  - ii only
  - iii only
  - i or ii
  - i, ii or iii
14. Refer to the following table.

Year	CPI
2012	207
2013	215

Refer to the table. The inflation rate for 2013 is equal to

- 215 percent.
  - 21.5 percent.
  - 8.0 percent.
  - 3.9 percent.
  - 2.8 percent.
15. If the average nominal wage rises faster than price level, we can say that average real wage has \_\_\_\_\_ and the purchasing power of income has \_\_\_\_\_.
- fallen; fallen
  - fallen; risen
  - risen; risen
  - risen; fallen
  - remained unaffected; risen

16. Which of the following statements is true?
- A. Rapid inflation brings very small costs to firms.
  - B. During hyperinflation, people prefer to hold more money.
  - C. Menu cost is one of the costs that firms face when rapid inflation takes place.
  - D. Inflation rate cannot be negative.
  - E. Inflation has the same effect on all people.
17. Which of the following is the most liquid asset?
- A. Money
  - B. Fixed deposits
  - C. A BMW car
  - D. An old painting
  - E. Gold
18. The demand for money as a medium of exchange is also called
- A. business demand for money.
  - B. M1.
  - C. asset demand for money.
  - D. barter demand for money.
  - E. transactions demand for money.
19. Bank A does not have any excess reserves currently. If Janet deposits \$20,000 of currency into her checkable account at Bank A and that the required reserve ratio is 20%. As a result of this deposit, Bank A's reserves immediately increase by
- A. \$2,000
  - B. \$20,000
  - C. \$4,000
  - D. \$40,000
  - E. \$16,000
20. When banks choose to keep more excess reserves,
- A. the money multiplier becomes smaller.
  - B. the reserve ratio becomes smaller.
  - C. the supply of money will increase in the economy.
  - D. Central Bank does not need to be the lender of the last resort anymore.
  - E. banks don't need to employ so many employees.

**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 aggregate supply in Country Z before and after a change in aggregate supply.

**Initial aggregate supply:**

Price level in the country	Aggregate demand (in billions)	Aggregate supply (in billions)
95	\$516	\$504
100	514	508
105	512	512
110	510	516
115	508	520
120	506	524

**New aggregate supply:**

Price level in the country	Aggregate demand (in billions)	Aggregate supply (in billions)
95	\$516	\$510
100	514	514
105	512	518
110	510	522
115	508	526
120	506	530

- (a) Based on the information given, the aggregate supply of Country Z has changed. Explain **THREE (3)** factors that may cause this change to take place. Provide examples for each factor explained.  
(9 marks)
- (b) Plot the aggregate demand, initial aggregate supply and new aggregate supply curves on the same diagram. Kindly use graph paper to plot the curves.  
(6 marks)
- (c) Based on your diagram in part (b), determine the country's initial and new equilibrium real GDP.  
(2 mark)
- (d) Is the change to the country's real GDP in part (c) beneficial to the government? Describe **ONE (1)** reason for your answer.  
(3 marks)

**Question 2**

The following data is obtained from the Malaysian government's Labor Force Survey in 2013.

**Perangkaan tenaga buruh, Malaysia, 2013**  
*Labour force statistics, Malaysia, 2013*

Perangkaan utama <i>Principal statistics</i>		Jumlah <i>Total</i>	Lelaki <i>Male</i>	Perempuan <i>Female</i>
Penduduk <i>Population</i>	(juta) <i>(million)</i>	29.7	15.2	14.4
Penduduk umur bekerja <i>Working age population</i>	('000)	20,335.4	10,516.4	9,819.0
Tenaga buruh <i>Labour force</i>		13,634.6	8,485.4	5,149.2
Penduduk bekerja <i>Employed persons</i>		13,210.0	8,237.5	4,972.5
Penganggur <i>Unemployed</i>		424.6	247.9	176.6
Luar tenaga buruh <i>Outside labour force</i>		6,700.8	2,031.0	4,669.8

- (a) Briefly describe the term unemployed. (2 marks)
- (b) Using the data provided, calculate the total unemployment rate, the unemployment rate for male and the unemployment rate for female in Malaysia for year 2013. Leave answers in two decimal points. (6 marks)
- (c) Why do governments throughout the world aim to keep unemployment rate low? Explain any **FOUR (4)** reasons. (12 marks)

**Question 3**

The following table illustrates the *first three rounds of the credit creation process* that takes place in the United States when \$50,000 of newly print money is deposited into the banking system.

	Received deposits	Required reserves	Excess reserves	Loans created
Bank A	\$50,000		\$35,000	
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.]

- (a) 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)
- (b) If the required reserve ratio changes to 20%, calculate the total amount of loans created after the first three rounds of credit creation process. (3 marks)
- (c) Starting from full employment position, explain the impact of lower reserve ratio on the country's *short run and long run* macroeconomic equilibrium. (12 marks)

**Question 4**

- (a) Country J is a 3-sector economy with the following aggregate expenditures function:  $C = \$5,000 + 0.75Y$ ,  $I = \$4,000$  and  $G = \$5,000$

*Note:* Y represents real GDP; C represents consumption function; I represents investment function and G represents government expenditure function. Currently, no taxes are collected.

- (i) Determine the Average Propensity to Consume (APC) in the country at  $Y = \$20,000$  and  $Y = \$25,000$ . Is APC increasing as real GDP increases? State your answer. (5 marks)

- (ii) Using the information given above, find the country's equilibrium level of national income.  
(3 marks)
- (b) Using examples and AD-AS diagram, explain the term demand pull inflation.  
(6 marks)
- (c) "Expected inflation and unexpected inflation have different impact on the creditors."  
Explain and illustrate the statement using suitable examples.  
(6 marks)

**~ The End ~**  
*ECO151(F)January2015*