

**FINAL**  
Examination Paper

(COVER PAGE)

Session : April 2016

Programme : Diploma In Business (DIB)  
Diploma In Finance (DIF)  
Diploma In Entrepreneurship (DENT)

Course : **ECO2104: Principles Of Macroeconomics**

Date of Examination : 28 July, 2016 (Thursday)

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

Duration : 2 Hours

**Special Instructions :**

**SECTION A:** Answer **ALL** Multiple Choice questions.

**SECTION B:** Answer any **TWO (2)** questions.

**SECTION C:** Answer any **ONE (1)** question.

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

Materials permitted : Non-Programmable Calculator

Materials provided : OMR Sheets

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*This paper consists of 10 printed pages, including the cover page*

DIPLOMA IN BUSINESS (DIB)  
DIPLOMA IN FINANCE (DIF)  
DIPLOMA IN ENTREPRENEURSHIP (DENT)  
ECO2104: PRINCIPLES OF MACROECONOMIC  
FINAL EXAMINATION: APRIL 2016 SESSION

**Section A:** There are 20 Multiple Choice Questions (MCQ). Answer ALL questions in the OMR sheet provided below. Each question carries 2 marks.

1. Which of the following items is included from the calculation of GDP?
  - A. purchase of 100 shares of General Motors stock.
  - B. purchase of a used car.
  - C. the value of a homemaker's services.
  - D. none of the above would be included.
  
2. "Value Added" is calculated as
  - A. the difference between wholesale and retail prices
  - B. price after minus price before tax
  - C. value of output and the intermediate goods.
  - D. none of the above is the answer
  
3. Depreciation or consumption of fixed capital depreciation measures:
  - A. value of current asset used in the production process.
  - B. the loss of productive ability due to capital intensive production.
  - C. capital that is wasted in the production process.
  - D. the difference between gross investment and net investment.
  
4. The circular flow model assumes:
  - A. businesses and households own the factors of production.
  - B. businesses own the factors of production.
  - C. households own the factors of production.
  - D. firms, households, and the government own the factors of production

5. Which is the most accurate statement about nominal and real GDP?
- A. nominal GDP uses constant base-year prices to value the economy's production, and real GDP uses current prices to value the production.
  - B. both nominal and real GDP use constant base-year prices to value the economy's production.
  - C. nominal GDP uses current prices to value the economy's production while real GDP uses constant base-year prices to value the production.
  - D. both nominal and real GDP use current prices to value the economy's production.
6. An increase in disposable income
- A. decrease of both consumption and saving.
  - B. increases consumption because it shifts the consumption schedule upward.
  - C. decreases consumption because it shifts the consumption schedule downward.
  - D. increases consumption by moving upward along a specific consumption schedule.
7. Given,  $C = 20 + 0.9Y$ , where  $C$  is consumption and  $Y$  is disposable income. At an \$800 level of disposable income, the saving is
- A. \$60.
  - B. \$80.
  - C. \$180.
  - D. \$800.

8. From the following data, calculate the Gross National Product (GNP)  
\$

Employees' compensations	10,000
Government pensions	1,200
Rent	1,500
Interest	1,000
Unemployment benefits	500
Profits	2,000

- A. \$15,700  
B. \$14,500  
C. \$12,500  
D. \$15,000
9. Assume that  $Y = \$3,000$ ,  $C = 100 + 0.8 Y_d$ ,  $G = \$300$ ,  $I = \$200$  and  $T = \$600$ , then equilibrium income is
- A. \$2,520  
B. \$3,000  
C. \$ 2,400  
D. \$2,900
10. Which one of the following are the components of aggregate expenditures?
- A. household consumption, business investment, government spending for goods and services, and net exports.  
B. household consumption, business investment, government transfer payments, and net exports.  
C. household consumption, business investment, government spending for goods and services, and exports.  
D. household consumption, business investment, government spending for goods and services, and saving

11. If the spending multiplier is equal to 4, then a \$25 initial increase in investment spending will lead to a:
- A. \$1 decrease in real GDP.
  - B. \$1 increase in real GDP.
  - C. \$100 decrease in real GDP.
  - D. \$100 increase in real GDP.
12. A business cycle is the period of time in which:
- A. a business is established and ceases operations.
  - B. there are four phases which are: peak, recession, depression, and recovery.
  - C. real GDP declines.
  - D. expansion and contraction of economic activity are equal.
13. The unemployment rate will increase whenever there is a(n):
- A. increase in the number of persons classified as unemployed.
  - B. increase in the number of unemployed persons relative to the size of the labor force.
  - C. increase in the size of the U.S. population and there is no change in the number of persons classified as employed.
  - D. reduction in the size of the labor force.
14. If the consumer price index (CPI) in 2001 was 200 and the CPI in 2002 was 215, the rate of inflation was:
- A. 215 percent.
  - B. 15 percent.
  - C. 5 percent.
  - D. 7.5 percent.

15. The Phillips curve suggests that
- A. rising output can be accompanied by stable price
  - B. inflation increases as the unemployment rate falls
  - C. there is a tradeoff between inflation and unemployment
  - D. fiscal policy is less inflationary than monetary policy
16. Excess reserves are equal to
- A. total reserves minus required reserves
  - B. required reserves minus deposits
  - C. required reserves plus total reserves
  - D. required reserves minus total reserves
17. A recessionary gap:
- A. is of little consequence in a capitalist economy.
  - B. represents actual physical output lost.
  - C. implies an equilibrium level of output less than the full-employment level.
  - D. will automatically close, according to the Keynesian model.
18. During a booming economy, the government may be worried about inflationary pressures and problems of balance of payments deficits. What fiscal policy would you advise the government to adopt?
- A. increase taxes and increase government expenditure.
  - B. increase taxes and reduce government expenditure.
  - C. reduce taxes and reduce government expenditure.
  - D. reduce taxes and increase government expenditure
19. The terms of trade of Country W has deteriorated. This can be interpreted as:
- A. the volume of exports of Country W has reduced
  - B. total value of exports is less than total value of imports.
  - C. trading partners of Country W has increased their tariffs on imports from Country W.
  - D. the average price of exports of Country W has fallen relative to the average price of its imports.

20. Which of the following is NOT included in the computation of gross domestic product using the expenditure approach?
- A. the government spends RM50 million in pension payments.
  - B. Encik Ramli spends RM1,000 on locally manufactured furniture.
  - C. Syarikat United invests RM2 million on its new factory in the country.
  - D. the local oil palm producers export RM100 million worth of palm oil to foreign countries.

**Section B:** Consists of **THREE (3)** qualitative questions. Answer any **TWO (2)** questions. All questions carry equal marks.

**Question 1**

The following information relates to Country A:

$$C = 400 + 0.75Y, I = 500, G = 200, T = 0$$

**Note:**

- “C” represents consumption, “I” represents investments spending and “G” represents government spending.
- All the information are in dollars, \$.
- Leave your answer in **TWO (2)** decimal points.

- (a) Fill up the following table.

Income (Y)	Consumption (C)	Average Propensity to Consume
0		
200		
	700	1.75

(4 marks)

- (b) Briefly explain the term MPC.

(2 marks)

- (c) Using the “AE-output” method determines the equilibrium level of national income.  
Support your answer with calculations. (4 marks)
- (d) (i) Due to expansionary fiscal policy, government has increased its spending by 300.  
What is the new equilibrium level of national income? Use the expenditure multiplier to derive your answer. (5 marks)
- (ii) Briefly explain how the multiplier process works in an economy. (5 marks)

**Question 2**

- (a) You are given the following information of country X.

Items	RM (million)
Compensation of employees	194.2
Personal Consumption Expenditure	219.1
U.S exports of goods and services	17.8
Capital Consumption	11.8
Government Consumption	59.4
Property Income to Abroad	14.4
Indirect Business Taxes	14.4
Net Private Domestic Investment	52.1
Transfer Payment	13.9
U.S. imports of goods and services	16.5
Personal Taxes	40.5
Net foreign factor income earned in U.S	2.2

Calculate the country's:

- (i) Gross Domestic Product (GDP) at market price (3 marks)
- (ii) Net Domestic Product (NDP) at market price (3 marks)
- (iii) National Income (NI) (3 marks)

- (b) Should the following expenditures be recorded in GDP 2013? Briefly explain.
- (i) In 2013, Mary asked her tailor to make a new dress for her birthday and she paid RM 200 for it. (2 marks)
- (ii) Danny paid RM 800 for a new smartphone in 2013. The phone was from last year's model and currently it is on sale. (2 marks)
- (c) The table shows the price indices for both exports and imports of Country A.

Year	Export Price Index	Import Price Index
2010	120	100
2011	125	135

- (i) Define terms of trade. (1 mark)
- (ii) Calculate the terms of trade for year 2010 and 2011. Leave your answers in **TWO (2)** decimal points. (2 marks)
- (iii) From the calculations in part (ii), explain whether the term of trade in each year is beneficial to country A. (4 marks)

### Question 3

- (a) The following information relates to a 3 sector economy.
- Consumption function (before adjusting for taxes)  $C = 850 + 0.8Y_d$
- Investment expenditure (I) = 30
- Government expenditure (G) = 80
- Taxes (T) = 50
- Full employment GDP ( $Y_f$ ) = 5000
- [Note: All the values are in million dollars]
- (i) Determine the new consumption function after taking taxes into consideration. (3 marks)
- (ii) Find the economy's level of equilibrium national income. (3 marks)

- (iii) Comparing the full employment GDP and the answer that you got in part (ii), what economic situation is the economy facing? Briefly explain and illustrate the situation with an AE-output diagram. (5 marks)
- (iv) Which of the following has a greater impact on the equilibrium national income; an increase in investment to \$50 million or a decrease in taxes to \$30 million? Use multiplier concept to prove your answer. (5 marks)
- (b) Briefly explain the following economic terms:
- (i) Upturn. (2 marks)
- (ii) Recession. (2 marks)

**Section C:** There are **TWO (2)** essay questions. Answer any **ONE (1)** question. All questions carry equal marks.

**Question 1**

- (a) Before the introduction of money, people traded by bartering. One good was exchanged for another good at constantly fluctuating rates. Bartering often created shortages in an economy. The use of money instead of bartering solved this shortage problem to an extent. Define money and its function in terms of economics. (10 marks)
- (b) What are the tools used by the Federal Reserve to influence money supply? (10 marks)

**Question 2**

- (a) Unemployment is often used as a measure of the health of the economy and it has been categorized into three types. Define unemployment and explain the **THREE (3)** types of unemployment with examples. (10 marks)
- (b) Briefly discuss the types of inflation. Use AD-AS diagram to explain your answer. (10 marks)