



FINAL
Examination Paper

(COVER PAGE)

Session : April 2014

Programme : Diploma in Business (DIB)
Diploma in Business Administration (DBADI)

Course : ECO2104/2101 : PRINCIPLES OF MACROECONOMICS

Date of Examination : July 22, 2014

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

Duration : 2 Hours

Special Instructions :

This paper consists of **SIX (6)** questions. Answer any **FOUR (4)** questions in the answer booklet

provided. All questions carry equal marks.

Materials permitted : Non-Programmable Calculator

Materials provided : Nil

Examiner(s) : Ms. Nageswari Parmasivam, Khor Kok Chin, Diane Janet.

Moderator : Associate Professor Dr. Evelyn S Devadason

This paper consists of 7 printed pages, including the cover page

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DIPLOMA IN BUSINESS PROGRAMME (DIB)
 DIPLOMA IN BUSINESS ADMINISTRATION PROGRAMME (DBADI)
 ECO 2101/2104: PRINCIPLES OF MACROECONOMICS
 FINAL EXAMINATION: APRIL 2014 SESSION

Instructions: This paper consists of **SIX (6)** questions. Answer any **FOUR (4)** questions in the answer booklet provided. All questions carry equal marks.

Question 1

a) Answer the following question based on the data given below:

	(\$ million)
Consumer expenditure	20 000
Government spending	10 000
Net exports	- 5 000
Net Investment	10 000
Capital consumption allowance	2 000
Indirect taxes	5 000
Subsidies	2 000

- (i) Calculate the GDP at market price. (4 marks)
- (ii) Calculate the GDP at factor cost. (3 marks)
- (iii) Calculate the NDP at factor cost. (3 marks)
- b) Briefly explain the **THREE (3)** approaches in measuring GDP. (9 marks)

- c) Suppose an economy can be represented by the following table, in which employment is in millions of workers and GDP and AE are expressed in billions of dollars:

Employment	Real GDP	C	I	Aggregate Expenditures (AE)
170	2300	2075		
190	2400	2150		
210	2500	2225		
230	2600	2300		
250	2700	2375		
270	2800	2450		

Assume that investment is constant at \$300. Find in the aggregate expenditure for all levels of GDP. Show your calculation.

(6 marks)

Question 2

- a) Identify **THREE (3)** common tools used in a monetary policy. If a country is facing rising inflationary pressures, select **ONE (1)** of the monetary policy tools and describe briefly how it is used to deal with these pressures. (8 marks)
- b) Will the following lead to cost- push or demand – pull inflation, or both? Explain briefly:
- The cutting of interest rates by the central bank. (4 marks)
 - The rising energy prices. (4 marks)
- c) Define Fiscal Policy. Explain the **TWO (2)** types of fiscal policy and when the government applies these policies? (9 marks)

Question 3

a) The following shows the data collected in the household survey for December, 2010.

Working Age population	
Employment	
Unemployment	
Unemployment Rate	5.4%
Labor Force	135,113
Labor Force participate rate	67.0%

Determine the missing values in the table above.

(6 marks)

b)

9,000 people are employed
1,000 are unemployed
5,000 are not in the labour force

Calculate the labour force, the unemployment rate and the working-age population.

(6 marks)

c) Unemployment is often used as a measure of the health of the economy and it has been categorized into three types. Explain the **THREE (3)** types of unemployment with examples.

(6 marks)

d) Using the short-run Phillips curve, explain the relationship between unemployment and inflation.

(7 marks)

Question 4

a) Wonderland is a three sector economy. Given:

$$C = 200 + 0.75Y_d$$

$$I = 100$$

$$G = 50$$

$$T = 100$$

- i) Derive the consumption and saving functions in terms of national income. (4 marks)
- ii) Determine the national income equilibrium of this economy. (1 mark)
- iii) If national income at full employment is 1500, determine the deflationary gap. (2 marks)
- iv) Name the type of Fiscal Policy that should be employed. How much should Government Expenditure (G) changes to attain full employment? (2 marks)

b) In a close economy, the functions for Consumption (C), Autonomous Investment (I), Government Expenditure (G) and Tax (T) are as follows:

$$C = 200 + 0.8 Y_d$$

$$I = 100$$

$$G = 50$$

$$T = 20$$

Based on the above assumptions, answer the questions that follow. (Note: all data are in billions of dollars).

i) Complete the table below for each output level.

Output level	Tax	Consumption	Saving	Investment
0	20			100
500	20			100
1500	20			100
2000	20			100
2500	20			100

(5 marks)

ii) Compute the equilibrium output level. (3 marks)

iii) Name the type of Fiscal Policy used to attain the equilibrium output level. Suppose the output at full employment is at \$2000, how much should Government Expenditure (G) change to attain this level? (5 marks)

iv) Sketch an expenditure-output diagram to show the equilibrium output and full employment level. (3 marks)

Question 5

a) Briefly explain the **FOUR (4)** functions of money. (12 marks)

b) Define Consumer Price Index (CPI). (3 marks)

c) The table below shows the CPI and GDP growth for country ABC from year 2006 to 2010. Based on the information given, answer the questions below. (Note: provide all answers in **TWO (2)** decimal points.

Year	2006	2007	2008	2009	2010
CPI	100	104.4	109.3	113.2	117
Inflation rate (%)					
GDP (%)	9.7	8.7	7.8	8.3	8.5

i) Determine the inflation rate for each year from 2006 to 2010. (5 marks)

ii) Give a brief summary on the trend of the inflation rates and GDP growth from year 2006 to 2010. (5 marks)

Question 6

- a) The production possibilities for China and the Korea are shown in the tables below. Before specialization and trade, China's optimal product mix is given by alternative C while optimal production in Korea is alternative J.

China Production Possibilities					
Product	A	B	C	D	E
Bananas	20	15	10	5	0
Mangos	0	3	6	9	12
Korea Production Possibilities					
Product	G	H	I	J	K
Bananas	32	24	16	8	0
Mangos	0	10	20	30	40

- i) What is China's opportunity cost ratio for bananas and mangos? (2 marks)
- ii) What is Korea's opportunity cost ratio for bananas and mangos? (2 marks)
- iii) Can these two countries gain through specialization? If so, in what products should they specialize in? (4 marks)
- iv) What is the total gain in production that can be achieved through specialization? (4 marks)
- b) McKay Bank has vault cash in the amount of \$300,000, loans of \$900,000, and deposits of \$1,200,000.
- i) If the bank maintains a reserve requirement of 5 percent, what is the largest amount of new loans it can make? (5 marks)
- ii) What is the maximum amount that money supply can be increased as a result of McKay Bank's new loan? (4 marks)
- c) Distinguish between free floating exchange rate and flexible exchange rate. (4 marks)

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