

INTI
International College Subang
LAUREATE INTERNATIONAL UNIVERSITIES'

FINAL
Examination Paper

(COVER PAGE)

Session : April 2015

Programme : Diploma in Business/Finance/Entrepreneurship (DIB/DIF/DENT)
Diploma in Business Administration (DBADI)

Course : ECO2104/2101 : PRINCIPLES OF MACROECONOMICS

Date of Examination : August 5, 2015

Time : 8:00am – 10:00am 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.

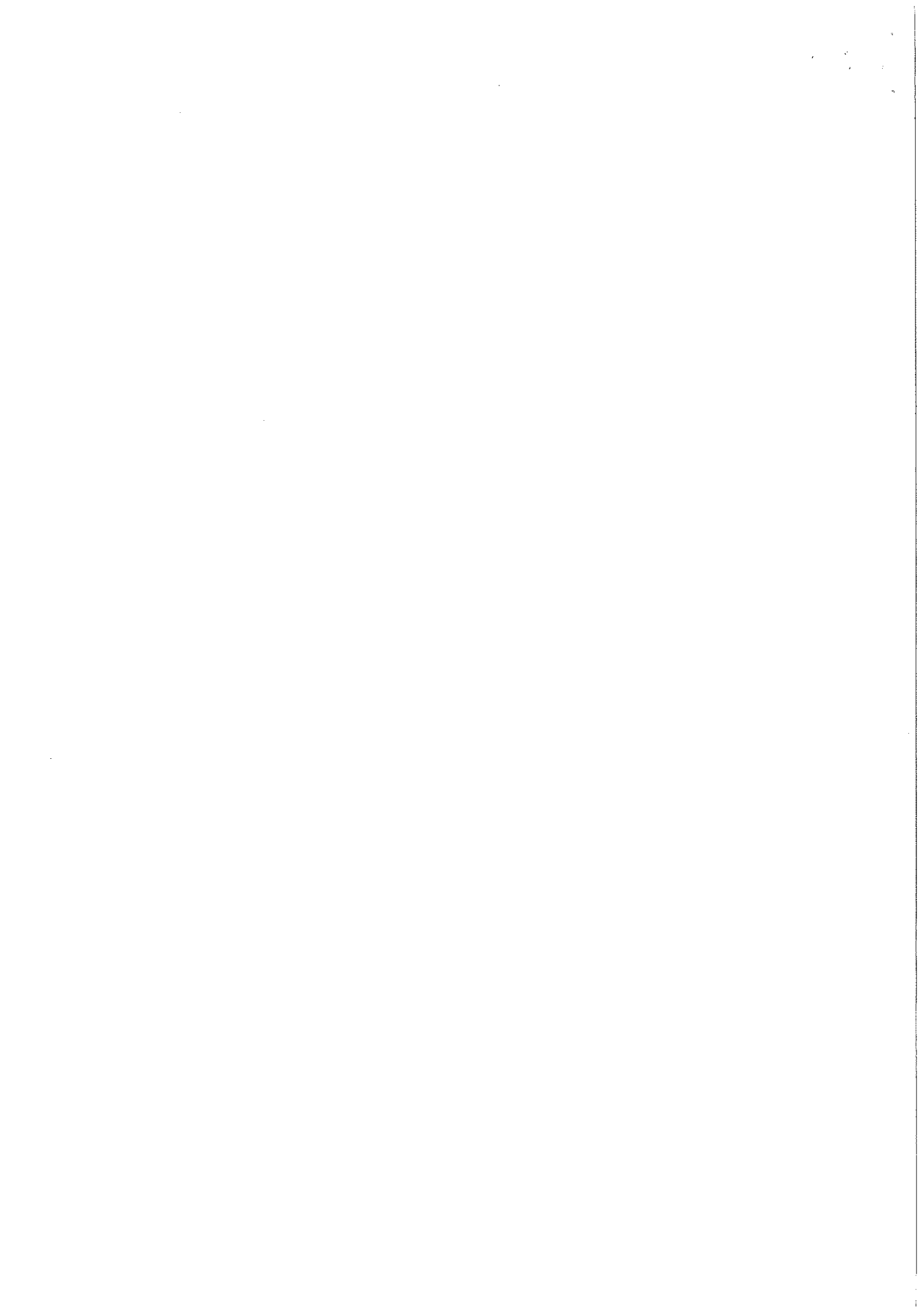
Materials permitted : Non-Programmable Calculator

Materials provided : Nil

Examiner(s) : Mr. Khor Kok Chin, Diane Janet, Ayappan Joseph.

Moderator : Associate Professor Dr. Evelyn S Devadason

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



INTI INTERNATIONAL COLLEGE SUBANG

DIPLOMA IN BUSINESS/ENTREPRENEURSHIP/FINANCE (DIB/DENT/DIF)
 ECO2104: PRINCIPLES OF MACROECONOMICS
 FINAL EXAMINATION: ARPIL 2015 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) Following is a list of domestic output and national income figures for a given year. All figures are in billions.

Personal consumption expenditures	\$140
Capital consumption allowances (depreciation)	20
Interest and miscellaneous investment income	10
Net income of farms and unincorporated business	17
Net exports	+13
Profits of corporation and government enterprises before taxes	42
Wages, salaries, and supplementary labour income	113
Indirect business taxes (less subsidies)	11
Government current purchases of goods and services	40
Net investment (net capital formation)	30
Taxes less subsidies on factors of production	10

Calculate Gross Domestic Product (GDP) by using

- (i) Expenditure Approach (5 marks)
- (ii) Income Approach (5 marks)
- (b) Explain **FIVE (5)** shortcomings of GDP. (10 marks)

- (c) The value added of a product in its final form is the sum of the value added by each of the various firms throughout the production process. Using the information provided here, calculate the value of one loaf of bread that is ultimately sold to a household. In doing so, calculate the value added at each stage of production.

State of Production	Selling Price to the Next Stage
1. Farmer (production of wheat)	\$0.10
2. Milling company (flour)	\$0.35
3. Bakery (production of wholesale bread)	\$0.75
4. Retailer (sale to household)	\$2.50

(5 marks)

Question 2

- (a) Consider an economy in Country V produces 3 types of vegetables: broccoli, cauliflower and peas. The base year and current year, production quantity and price are stated as below.

Vegetables	Base Year		Current Year	
	Quantity	Price(\$)	Quantity	Price(\$)
Broccoli	3000	2	4000	3
Cauliflower	6000	3	14000	2
Peas	8000	4	32000	5

- (i) Calculate the Nominal GDP in the base year and current year. (6 marks)
- (ii) Calculate the Real GDP in the current year. (3 marks)
- (b) Distinguish the difference between Nominal GDP and Real GDP. (6 marks)
- (c) Suppose an economy's real GDP is \$30,000 in year 1 and \$31,200 in year 2. What is the growth rate of its real GDP? Assume that population was 100 in year 1 and 102 in year. What is the growth rate of GDP per capita? (4 marks)

- (d) "GDP does not include the value of stocks and bonds bought and sold, as well as the value of used furniture bought and sold; GDP only include final goods value in the market."

Explain the statement above.

(6 marks)

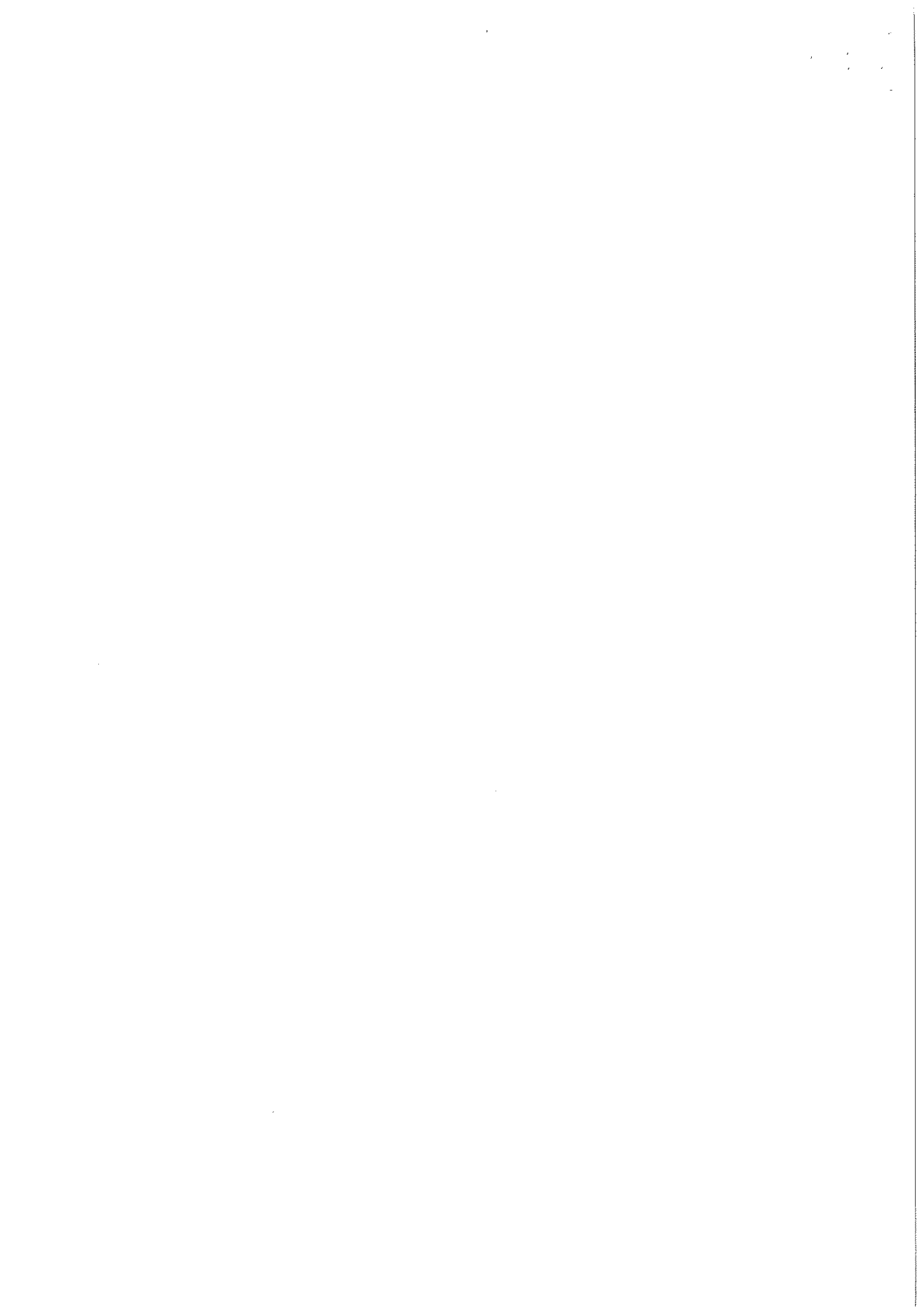
Question 3

- (a) Use the following information to answer the questions below:

Labor-force population	500
Number of people in full time employment	160
Number of people in part time employment	65
Number of people unemployed	25
Number of discouraged workers	15
CPI	140

- (i) Define unemployment. (2 marks)
- (ii) Calculate the unemployment rate. (2 marks)
- (iii) Calculate the labour force participant rate. (2 marks)
- (b) For each of the following scenarios determine which type of unemployment is being experienced.
- (i) John has voluntarily quit his job. Because he has marketable skills he expects to find a new job soon. John is simply between jobs. (1 mark)
- (ii) Joann has been working in a textile mill for the last 32 years. She has just been laid off from her job because her company is relocating to Indonesia where the firm can hire cheaper labor. (1 mark)
- (iii) Bill was laid off at the local Ford plant because the cars produced at the plant have not been selling very well lately. He is not sure when he will be called back to work. (1 mark)

(1 mark)



(iv) Bob was a steelworker at the same plant for 28 years. He was told his job at the plant no longer exists because the firm has been modernizing. The plant has started using lots of automated robotics equipment. Bob, as well as many of his co-workers, do not expect to ever get their old jobs back because robots now do the work they used to do.

(1 mark)

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

(9 marks)

(d) Explain economics costs and non-economics costs of unemployment with appropriate example.

(6 marks)

Question 4

(a) National Income at full employment level is RM150 billion, and Aggregate Expenditure (AE) is at RM200 billion.

Explain the above situation with appropriate diagram.

(7 marks)

(b) Explain the **FIVE (5)** costs of inflation.

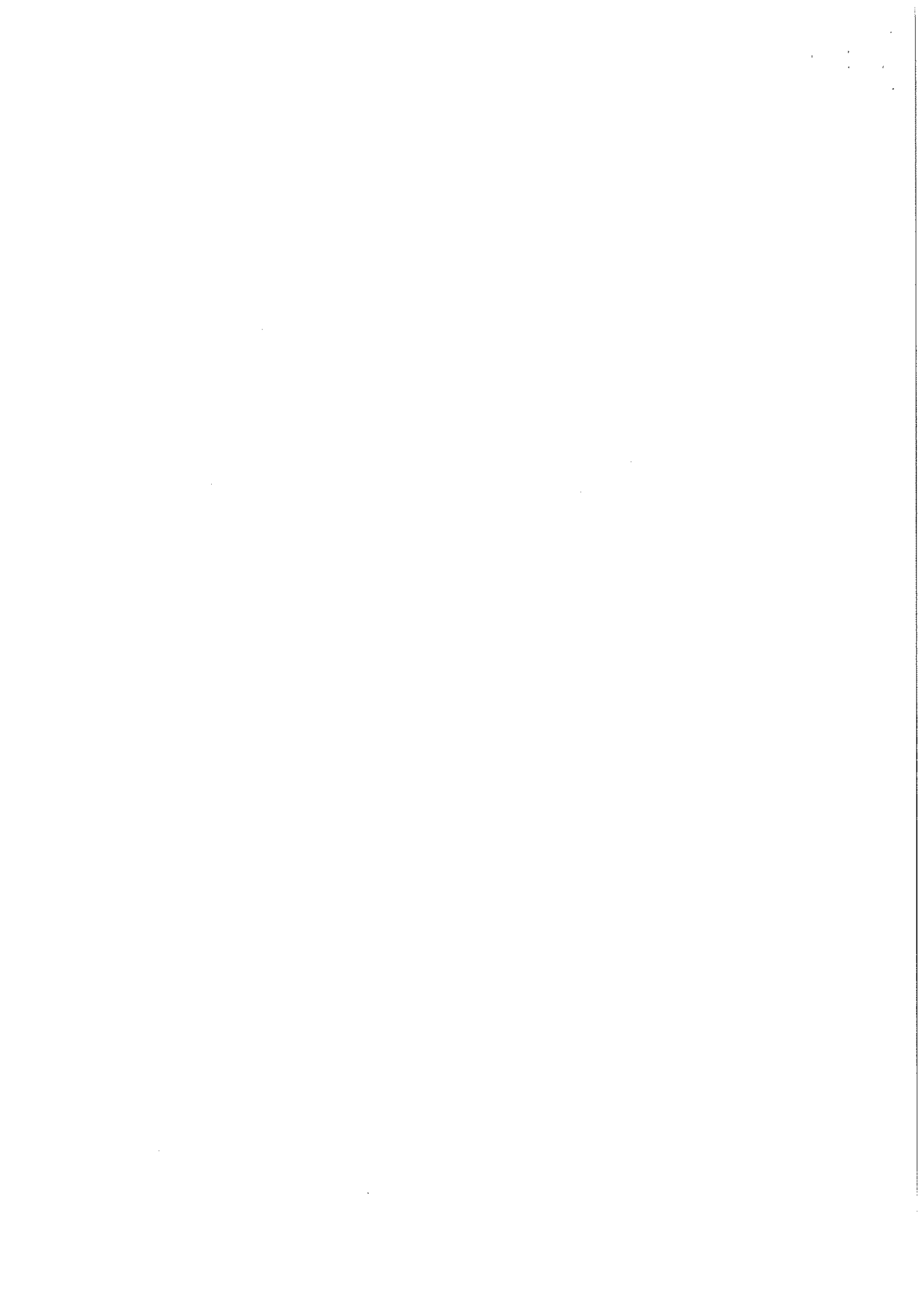
(10 marks)

(c) Given below data for Country M.

	AE (RM Billion)	CPI	Inflation Rate
2010	2579	100	-
2011			11.15%
2012	3014		

Complete the table above, with complete calculation steps shown.

(8 marks)

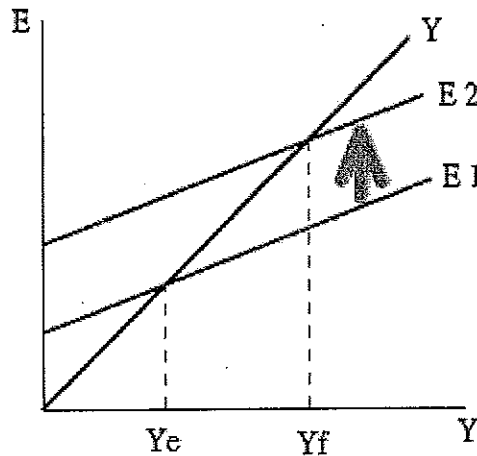


Question 5

(a) Explain and illustrate with diagrams how the fiscal policies can be used to influence the general level of economic activity.

(12 marks)

(b)



(i) Identify the economics problem occurs according to above diagram.

(1 mark)

(ii) Explain in detail, how Monetary Policy will would able to solve this economics problem.

(12 marks)

Question 6

(a) Define absolute advantage and comparative advantage.

(4 marks)

b) Labor productivity coefficients for the United States (US) and Brazil are given by the following table:

Country	Wheat	Clothing	Labor Endowment
United States	2	8	100
Brazil	1	2	120

(i) Who has the absolute advantage in which good?

(2 marks)

(ii) What is the opportunity cost of wheat in the US? in Brazil?

(2 marks)

(iii) What is the opportunity cost of clothing in the US? in Brazil?

(2 marks)

(vi) Who has the comparative advantage in which good?

(2 marks)

(v) What are the limits of the post-trade relative price of wheat?

(2 marks)

- (c) Use the principle of comparative advantage to illustrate how specializations make both countries become more productive than they can be alone. Explain with appropriate table and data given below:

	Digital Cameras	Vacuum Cleaners
UK	600	600
United States	2400	800
Total	3000	1400

Illustrate via table: before trade, specialization, gains from trade.

(given exchange rate = 2 digital cameras: 1 vacuum cleaner)

(8 marks)

- (d) Although the World Trade Organization is trying to promote free trade among global countries, still there are many countries practicing trade barriers to protect domestic industries.

Justify **THREE (3)** trade barriers imposed by a nation.

(3 marks)

~ The End ~

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