

FINAL  
Examination Paper

(COVER PAGE)

Session : APRIL 2017

Programme : Diploma In Business (DIB)

Course : ECO2104/2105: Principles Of Macroeconomics

Date of Examination : 04 August, 2017 (Friday)

Time : 5:00pm – 7:00pm 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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Moderator : Dr Sumitha Ganesharatnam

*This paper consists of 9 printed pages, including the cover page*

DIPLOMA IN BUSINESS PROGRAMME (DIB)  
ECO2104 / 2105: PRINCIPLES OF MACROECONOMICS  
FINAL EXAMINATION: AUGUST 2017 SESSION

**SECTION A: (40 marks)**

**Instruction:** This paper consists of **THREE (3) SECTIONS**. Answer **ALL** questions.

1. Macroeconomics is a study of \_\_\_\_\_.
  - A. individual's demand and supply
  - B. total production of a country
  - C. a firm's production
  - D. labor wages
  
2. Suppose nominal GDP is RM 6000 and the GDP deflator is 110. Real GDP is:
  - A. RM5454.55
  - B. RM54.55
  - C. RM5890.00
  - D. RM58.90
  
3. Country A produces pirated DVDs. If more pirated DVDs are produced and then exported to country B, the reported real GDP of country A will \_\_\_\_\_ and the reported real GDP of country B will \_\_\_\_\_.
  - A. increase; remain unaffected.
  - B. remain unaffected; increase.
  - C. remain unaffected; remain unaffected.
  - D. increase, increase.
  
4. During the business cycle, an economic expansion occurs
  - A. at the peak of the business cycle.
  - B. at the trough of the business cycle.
  - C. in between peak and trough.
  - D. in between trough and peak.
  
5. If a decrease in RM50 million in government expenditure generates a decrease of RM200 million in real GDP, the multiplier is \_\_\_\_\_.
  - A. 4
  - B. -4
  - C. 0.25
  - D. -0.25

6. If the consumption function is  $C = \$350 + 0.50Y$  and investment  $I = \$1,000$ , what is the equilibrium level of national income?
- A. \$2,700
  - B. \$2,800
  - C. \$2,900
  - D. \$3,000
7. When interest rates drops in the economy,
- A. more leakages take place.
  - B. more injections take place.
  - C. households will cut down their consumption expenditures.
  - D. equilibrium level of national income falls.
8. According to the Keynesian model, when real GDP ( $Y$ ) is greater than aggregate planned expenditure ( $AE$ ),
- A. multiplier rises.
  - B. multiplier decreases.
  - C. an unplanned decrease in inventories (stocks) occurs.
  - D. an unplanned increase in inventories (stocks) occurs.
9. James is unemployed due to recession. What type of unemployment best describes the situation of James?
- A. natural unemployment
  - B. structural unemployment
  - C. cyclical unemployment
  - D. circular unemployment
10. Which of the following statements is correct?
- A. Discouraged workers are counted as unemployed.
  - B. Discouraged workers are counted as underemployed.
  - C. If more workers become discouraged, the labor force becomes smaller.
  - D. Labor force = Employed + Discouraged workers + Unemployed

11. The following table illustrates the CPI of country A for selected years.

	Year 2	Year 3	Year 4	Year 5
CPI	98	100	104	102

Using the information provided, we can conclude that deflation happened

- A. in year 2 and 5.  
 B. in year 2 only.  
 C. in year 4 only.  
 D. in year 5 only.
12. Who will gain when inflation is unexpectedly higher?
- A. Lenders  
 B. Borrowers  
 C. Savers  
 D. Low income households
13. M1 money supply consists of
- A. paper money, coins in circulation and time (current) deposits.  
 B. fixed deposits at the commercial banks.  
 C. saving deposits at the commercial banks.  
 D. paper money, fixed deposits and saving deposits.
14. Commercial bank A tries to keep its required reserve ratio at 0.25. When the bank receives \$500 of new deposit, the bank will have an excess reserves of
- A. \$125.  
 B. \$375.  
 C. \$625.  
 D. \$2,000.
15. Money demand and interests rates
- A. are positively related.  
 B. are negatively related.  
 C. can be positively or negatively related.  
 D. are not related.
16. When economists use the term "tight monetary policy", this means that the Bank Negara is taking actions to
- A. increase the demand for money.  
 B. decrease the demand for money.  
 C. increase the money supply.  
 D. decrease the money supply.

17. India and Malaysia have 50 units of resources each.

The following table shows the production possibilities of both countries when the resources are fully utilized. Using the information given, the opportunity cost to produce one unit of laptop in Malaysia equals to \_\_\_\_\_.

Country: Malaysia	Laptop	TV
	120	0
	0	200

Country: India	Laptop	TV
	0	180
India	150	0

- A. 1.67 TV
- B. 0.86 TV
- C. 0.77 TV
- D. 1.29 TV

18. Using information in Question 17, Malaysia has the absolute advantage to produce \_\_\_\_\_ and comparative advantage to produce \_\_\_\_\_.

- A. TV; TV
- B. laptop; laptop
- C. TV; laptop
- D. laptop; TV

19. Quotas and tariffs are examples of

- A. leakages.
- B. injections.
- C. trade barriers.
- D. monetary policy tools.

20. Tighter quotas in Malaysia

- A. will push up the price of imported goods.
- B. equals to freer trade.
- C. increases competition on domestic producers.
- D. increases Malaysia's unemployment in the short term.

**SECTION B: (40 marks)**

**Instruction:** Answer any **TWO (2)** questions in the answer booklet provided.

[**Note:** Kindly show relevant workings clearly and leave answers in 2 decimal points whenever appropriate.]

1. The following conditions relate to Country A:

Consumption function:	C	= \$3,500 + 0.8Y <sub>d</sub>
Tax function:	T	= 0.2Y
Investment function:	I	= \$1,800
Government expenditure function:	G	= \$3,200
Full employment national income:	Y <sub>f</sub>	= \$20,000
National income	Y	

- (a) Rewrite consumption as a function of national income. (2 marks)
- (b) What is the equilibrium level of national income? (3 marks)
- (c) At the equilibrium national income, is the government having a budget surplus or deficit? Show calculations to support your answer. (3 marks)
- (d) Is Country A experiencing deflationary gap or inflationary gap? State your answer. (1 mark)
- (e) Sketch a diagram to illustrate your answer to part (d). (4 marks)
- (f) Calculate the amount of government spending that needs to be changed in order to reach full employment. State whether the spending has to be increased / decreased in your answer. (3 marks)
- (g) Briefly explain why a change in government spending in part (f) leads to a bigger change in national income. (4 marks)

2. The following table illustrates the prices and quantities of goods purchased by a typical household staying in Australia.

	Price per unit (2012)	Quantity (2012)	Price per unit (2013)	Quantity (2013)
Wine (bottles)	\$150	4	\$140	5
Grapes (kg)	\$5	10	\$6	8
Apples (kg)	\$4	20	\$5	15
Meat (kg)	\$10	20	\$8	25

	Price per unit (2014)	Quantity (2014)
Wine (bottles)	\$w	4
Grapes (kg)	\$x	8
Apples (kg)	\$y	12
Meat (kg)	\$z	22

- (a) Define Consumer Price Index. (2 marks)
- (b) Assuming that 2012 is the base year, determine the CPI for year 2013. (3 marks)
- (c) In 2014, Australia was affected by bad weather. As a result, the **prices of various goods increased as compared to year 2013**. Wine was more expensive by 10%. Prices of grapes and apples increased by 15% each. Meat has the highest increase of 20%.
- Determine the value of w, x, y and z. (4 marks)
  - Determine the CPI for year 2014. (3 marks)
- (d) Define nominal and real interest rates. (3 marks)
- (e) If the banks in Australia increase the interest rates from 3% in 2013 to 6.2% in 2014, will the real interest rates in 2014 be higher too? Support your answer with calculations. (5 marks)

3. (a) Briefly explain the following functions of money with the aid of examples:

- i. Unit of account
- ii. Medium of exchange

(4 marks)

(b) Bank ABC has the following T-account:

<u>Assets</u>		<u>Liabilities</u>	
Reserves	\$3,000	Deposits	\$30,000
Loans	\$24,000		

- i. Assuming that Bank ABC does not have any excess reserves at this moment, calculate the bank's reserve ratio. (2 marks)
- ii. If the reserve ratio changes to 0.05, can Bank ABC lend out more money? If yes, why? If no, why not? (2 marks)
- iii. Calculate the country's money multiplier if all the commercial banks maintain their reserve ratio at 0.05. (2 marks)
- iv. How does central bank control the reserve ratio to influence the country's money supply? Briefly explain your answer. (3 marks)

(c) Printing money is inflationary. Explain what this statement means using an AD-AS diagram.

(7 marks)

**SECTION C: (20 marks)**

**Instruction:** Answer any **ONE (1)** question in the answer booklet provided.

1. (a) i. Define natural rate of unemployment. (2 marks)
- ii. Explain why natural rate of unemployment can't be equals to zero. (6 marks)
- (b) Explain **TWO (2)** consequences of high unemployment. (4 marks)
- (c) How is fiscal policy used to reduce cyclical unemployment? Support your explanations with the aid of Keynes AE-output diagram. (8 marks)
2. (a) Using AD-AS diagram, illustrate the impact of the following events on China's macroeconomic equilibrium:
- i. UK signs free trade agreements with China (6 marks)
- ii. Central Bank in China carries out open market selling (6 marks)
- (b) Free trade supporters argue that countries with free trade will have higher real GDP. Does higher GDP mean better standard of living? Discuss any **TWO (2)** points. (8 marks)

~ The End ~

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