



FINAL
Examination Paper

(COVER PAGE)

Session : April 2013

Programme : Diploma in Business

Course : **ECO2104 : PRINCIPLES OF MACROECONOMICS**

Date of Examination : August 2, 2013

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 : Nil

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Examiner(s) : **Ms. Grace Jelaja Gomez, Sara Seah Peng Teng.**

Moderator : Associate Professor Dr. Evelyn S. Devadason

This paper consists of 5 printed pages, including the cover page

INTI INTERNATIONAL COLLEGE SUBANG
 DIPLOMA IN BUSINESS PROGRAMME (DIB)
 ECO2104: PRINCIPLES OF MACROECONOMICS
 FINAL EXAMINATION: APRIL 2013 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) Explain how the following events affect the real Gross Domestic Product (GDP) of a country:
- (i) A fall in sales of previously owned homes. (3 marks)
 - (ii) An accumulation of inventory by firms. (3 marks)
- (b) The following table shows extracts from the national income statistics of a country using the expenditure approach.

Items	RM('000)
Property Income from Abroad	200
Imports	250
Investment Expenditure	115
Depreciation	70
Property Income to Abroad	100
Government Expenditure	160
Exports	220
Consumption Expenditure	500
Taxes on Expenditure	90
Subsidies	10

From the above table, calculate:

- (i) Gross Domestic Product (GDP) at market prices. (3 marks)
- (ii) Gross National Product (GNP) at factor cost. (3 marks)
- (iii) Net National Product (NNP) at factor cost. (2 marks)

- (c) If nominal GDP is RM10 trillion and real GDP is RM8 trillion, calculate the GDP deflator and explain the meaning.

(5 marks)

- (d) Explain **TWO (2)** problems in comparing national income figures of a country over time.

(6 marks)

Question 2

The table below shows the national income (Y) and the consumption expenditure (C) of a two sector economy.

Consumption Expenditure (RM billion)	National Income (RM billion)
31	30
39	40
47	50
55	60
63	70

- (a) (i) Define marginal propensity to consume and marginal propensity to save.
- (3 marks)
- (ii) If national income increases from RM40 billion to RM50 billion, calculate the values of the marginal propensity to consume (MPC) and the marginal propensity to save (MPS).
- (3 marks)
- (b) Assuming autonomous investment is RM5 billion, determine the equilibrium level of national income based on the above table.
- (5 marks)
- (c) (i) If the full employment national income is at RM70 billion, what is the economic condition of the above economy?
- (1 mark)
- (ii) Based on your answer in (c)(i), briefly explain the problems in this economy.
- (4 marks)
- (iii) If the government intervenes in this economy, discuss the fiscal measures that may be implemented to correct the problem.
- (9 marks)

Question 3

- (a) Explain how a new demand deposit of \$100 can potentially create new money of \$900 if the legal reserve requirement is 10 percent.
(10 marks)
- (b) Explain the Central Bank's monetary policy tools and briefly describe how each works.
(15 marks)

Question 4

- (a) Distinguish between the three types of unemployment: frictional, structural, and cyclical. Provide an example of each type of unemployment.
(9 marks)
- (b) In a country, the adult population is 212 million. Number employed is 135 million and the labour force is 142 million. Calculate
- (i) the unemployment rate.
(3 marks)
- (ii) the labour force participation rate.
(3 marks)
- (c) Using relevant diagrams, discuss the short run and the long run Phillips Curve.
(10 marks)

Question 5

- (a) Describe and illustrate graphically demand-pull inflation and cost-push inflation.
(13 marks)
- (b) Discuss the problems caused by inflation.
(12 marks)

Question 6

- (a) Explain **THREE (3)** arguments for protectionism. (9 marks)
- (b) The following show extracts from the Balance of Payments of an economy for a given year.

<u>Items</u>	<u>RM (billions)</u>
Visible exports	500
Services (net)	-150
Visible imports	450
Net investment income & net transfers	200
Capital inflow	660
Capital outflow	-780

From the above information, determine the:

- (i) balance on current account (3 marks)
- (ii) overall balance (balance of payments) (4 marks)
- (c) Explain what would happen to the Ringgit Malaysia (RM) real exchange rate in each of the following situations:
- (i) the RM nominal exchange rate depreciates.
- (ii) the RM domestic prices increase.
- (iii) prices in the rest of the world rise. (9 marks)