



**INTI**  
International College Subang  
LAUREATE INTERNATIONAL UNIVERSITIES'

**FINAL**  
Examination Paper  
(COVER PAGE)

Session : August 2014

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

Course : ECO2104/2101 : PRINCIPLES OF MACROECONOMICS

Date of Examination : December 8, 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, Frederick Lo Vui Han.

Moderator : Associate Professor Dr. Evelyn S Devadason

*This paper consists of 6 printed pages, including the cover page*

## INTI INTERNATIONAL COLLEGE SUBANG

DIPLOMA IN BUSINESS PROGRAMME (DIB/DBADI)  
 ECO 2104/2101: PRINCIPLES OF MACROECONOMICS  
 FINAL EXAMINATION: AUGUST 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**

The following information relates to Country A:

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

Note:

- "C" represents consumption, "I" represents investment 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 Marginal Propensity to Consume (MPC).

(2 marks)

(c) Using the "aggregate expenditure –output (AE-o)" method determine the equilibrium level of national income. Support your answer with calculations.

(4 marks)

- (d) (i) Briefly explain the term “expansionary fiscal policy”. (5 marks)
- (ii) The 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)
- (iii) Briefly explain how the multiplier process works in an economy. (5 marks)

**Question 2**

- (a) Using examples, explain any **THREE (3)** functions of money. (9 marks)
- (b) How are the following tools used by the Central Bank to reduce aggregate demand?
- (i) Open market Operations (3 marks)
  - (ii) Required reserve ratio (3 marks)
  - (iii) Discount Rate (3 marks)
- (c) Using diagrams, explain the effects of Central Bank’s actions in part (b) (i) on the money market. (7 marks)

**Question 3**

- (a) (i) Define Consumer Price Index (CPI). (3 marks)
- (ii) Why is CPI an inaccurate measure for a family’s cost of living? Provide **TWO (2)** reasons for your answer. (7 marks)
- (b) Using AD-AS diagrams, explain **TWO (2)** causes of inflation. (10 marks)
- (c) How does higher inflation affect a country’s trade surplus? (5 marks)

## Question 4

- (a) Explain any **THREE (3)** types of unemployment with examples. (9 marks)

- (b) Table 1: Unemployment

	Country A	Country B
Number of people employed	20 million	9 million
Number of people unemployed	1 million	2.5 million
Population aged 15-64	23.0 million	25.0 million

Note: leave your answers in **TWO (2)** decimal points.

- (i) Refer to the information given in Table 1. Which country has higher labor force and higher unemployment rate? Support your answer with calculations. (6 marks)
- (ii) Briefly explain the term “natural rate of unemployment”. (3 marks)
- (iii) According to A. W Phillips, inflation and unemployment rate are negatively related. Is this statement true? Discuss this statement with the help of a diagram. (7 marks)

## Question 5

- (a) You are given the following information of U.S.

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 (3marks)
  - (iii) National Income (NI) (3 marks)
- (b) Explain the differences between GDP and GNP by using examples. (6 marks)
- (c) Should the following expenditures be recorded in GDP 2013? Briefly explain.
- (i) In 2014, Mary asked her tailor to make a new dress for her birthday and she paid RM 200. (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 sales. (2 marks)
- (d) Describe **THREE (3)** factors that will increase the consumption expenditures in the country. (6 marks)

**Question 6**

- (a) Briefly explain the components of Balance of Payment (BOP). (6 marks)
- (b) 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. (2 marks)
- (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 terms of trade in each year is beneficial to country A. (5 marks)

(c) Describe **THREE (3)** types of trade barriers that can be used to protect local producers.

(10 marks)

**-THE END-**  
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