



FINAL
Examination Paper

(COVER PAGE)

Session : August 2016

Programme : Diploma In Business (DIB)

Course : ECO2104: Principles Of Macroeconomics

Date of Examination : 09 December, 2016 (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 10 printed pages, including the cover page

DIPLOMA IN BUSINESS PROGRAMME (DIB)
ECO2104: PRINCIPLES OF MACROECONOMIC
FINAL EXAMINATION: AUGUST 2016 SESSION

Instruction: This paper consists of **THREE (3) SECTIONS**. Answer **ALL** questions in **SECTION A**, any **TWO (2)** questions from **SECTION B** and **ONE (1)** question from **SECTION C**

SECTION A: Answer **ALL** questions in the OMR sheet provided. **(40 marks)**

1. Gross domestic product is officially measured by adding together:
 - A. The market value of all final goods and services produced within the borders of a nation
 - B. The quantity of each good and service produced by Malaysia residents
 - C. Gross national product and depreciation of resources
 - D. Net income received by households

2. The value of real GDP in the current year equals
 - A. The value of current-year output in the prices of the base year
 - B. The value of current-year output in the prices of the current year
 - C. The value of base-year output in the prices of the base year
 - D. The value of base-year output in the prices of the current year

3. The inclusion of intermediate goods and services in GDP measurement would result in:
 - A. Nominal GDP being higher than real GDP
 - B. The GDP being overstated
 - C. The GDP being understated
 - D. None of the above

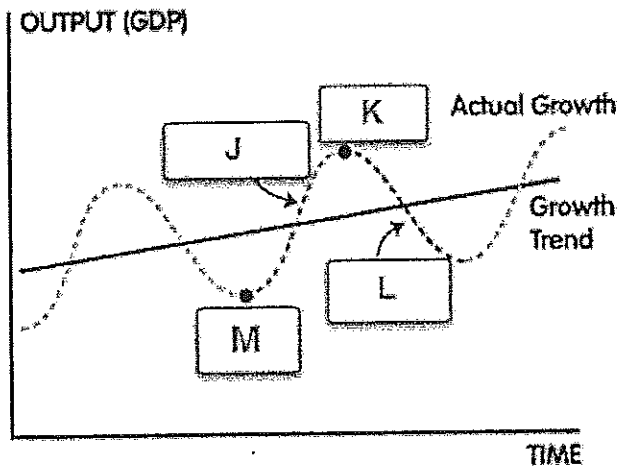
4. Autonomous consumption is consumption that:
 - A. Varies directly with disposable income
 - B. Varies inversely with disposable income
 - C. Is independent of the level of disposable income
 - D. Is constant at first and then varies with disposable income

5. What is the value for multiplier when an increase in investment of RM100 million generates an increase of RM500 million in real GDP?
 - A. 50
 - B. 5.0
 - C. 1.5
 - D. 20

6. A recessionary gap can be defined as:
- A. The amount by which aggregate expenditures falls short of the level needed to generate equilibrium real GDP at full employment without inflation
 - B. An economy that is operating above its full-employment capacity
 - C. An economy that is operating at full-employment capacity
 - D. None of the above
7. Fiscal policy is government action to influence aggregate demand and in turn to influence the level of real GDP and the price level through:
- A. Regulation of net exports
 - B. Encouraging business to invest
 - C. Expanding and contracting the money supply
 - D. Changes in government spending and/or tax revenue
8. Which of the following would be an appropriate discretionary fiscal policy to use when the economy is in a recession?
- A. A balanced budget reduction in both spending and taxes
 - B. An expansion in the money supply
 - C. Increased government spending
 - D. Higher taxes
9. The Central Bank can raise the discount rate when it wants to:
- A. Decrease the money supply
 - B. Decrease the budget deficit
 - C. Increase the money supply
 - D. Increase the budget deficit
10. A business cycle is:
- A. The period of time in which there are three phases namely peak, depression and recovery
 - B. The period of time in which expansion and contraction of economic activity are equal
 - C. The period of time in which a business is established and ceases operations
 - D. The recurring growth and decline in real GDP

11. Which of the following is true?
- A. Cost-push inflation is caused by an increase in resource costs
 - B. Demand-pull inflation is caused by excess total spending
 - C. If real interest rates are negative, lenders incur losses
 - D. All of the above
12. A bank creates money when it:
- A. Makes a loan from its high cash reserve ratio
 - B. Has a loan paid off, which creates excess reserve for the bank
 - C. Gets new checkable deposits which the depositor formerly held as cash
 - D. Gets more excess reserves because of a decrease in the required reserve ratio
13. During a period of inflation, the Central Bank is likely to:
- A. Raise taxes in order to reduce the money supply
 - B. Cut the discount rate in order to increase the affordability of loanable funds
 - C. Sell government bonds to banks in order to reduce the amount of loanable funds
 - D. Buy government bonds from banks in order to increase the amount of loanable funds
14. The theory of comparative advantage suggests that a:
- A. A country specialized in producing goods and services for which it has a lower opportunity cost
 - B. A country that is not competitive should import everything
 - C. An industrialized country should not import
 - D. None of the above
15. According to the Keynesian's liquidity preference theory,
- A. People demand money for transaction motive only
 - B. People demand money for precautionary motive only
 - C. people demand money for speculative motive only.
 - D. People demand money for transaction, precautionary and speculative motives.

16. The following diagram show the different phases of a country's business cycle.



Phase L of the business cycle is also known as _____.

- A. Trough
 B. boom
 C. repercussion
 D. Contraction
17. Which of the following statements is correct about spending multiplier?
- If a \$4.00 decrease in spending causes the equilibrium national income to decrease by \$8.00, the multiplier value is 2.
 If an \$8.00 increase in spending causes the equilibrium national income to increase by \$32.00, the multiplier value is 4.
 If the marginal propensity to consume decreases from 0.75 to 0.5, the multiplier value will be smaller.
- A. Only I is correct.
 B. Both I and II are correct.
 C. Both I and III are correct.
 D. All I, II and III are correct.
18. After 9 months of job search, Mrs. Lim has made a decision to stop looking for jobs. How does Mrs. Lim's decision affect the country's labour statistics?
- A. The country's unemployed remains the same.
 B. The country's unemployed increases.
 C. The country's labour force decreases.
 D. The working age population decreases.

19. In the short run, expansionary monetary policy will cause _____.
- A. the country's real GDP to rise but price level to fall
 - B. the country's real GDP and price level to fall
 - C. the country's real GDP and price level to rise
 - D. the country's real GDP to fall but price level to rise
20. Given an inflation rate of 2% and nominal interest rate of 5%, we can conclude that real interest rate is _____.
- A. 7%
 - B. 5%
 - C. 3%
 - D. 2%

SECTION B: Answer any **TWO (2)** questions in the answer booklet provided. **(40 marks)**

Question 1

Country Z is a 3-sector economy with the following aggregate expenditures functions:

$$C = \$200 + 0.9Y_d$$

$$T = \$80 \quad I = \$600 \quad G = \$400$$

- (a) Identify the leakages and the injections from the functions above. (4 marks)
- (b) Define equilibrium level of national income. (2 marks)
- (c) Using the information provided, determine Country Z's equilibrium level of national income. (3 marks)
- (d) Illustrate your answer to part (c) in a diagram. [Note: No explanation is needed] (4 marks)
- (e) Currently the government is considering two policies:

Policy A: Raises its government expenditures by \$50
 Policy B: Cuts its taxes by \$50

Which policy has a bigger effect on the country's level of equilibrium national income?
 Use multiplier formula to support your answer. (7 marks)

(Total: 20 marks)

Question 2

	(\$ 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

- (a) (i) Calculate the GDP at market price. Show all workings. (3 marks)
- (ii) Calculate the GDP at factor cost. Show all workings. (3 marks)
- (iii) Calculate the NDP at factor cost. Show all workings. (3 marks)
- (b) Comment on the following statements:
- (i) "Real per capita GDP is a good measure of economic welfare." (6 marks)
- (ii) "I bought a new house last year. If I sell it today, it will raise the level of Malaysia GDP." (5 marks)

(Total: 20 marks)

Question 3

Country J is a simple economy. People in this country consume only 3 goods non-organic vegetables, organic vegetables and clothing. In order to calculate the CPI, the government of country J uses a basket of goods that consists of 80 units of non-organic vegetables, 25 units of organic vegetables and 10 units of clothing. Base year has been set as Year 2000.

The prices of these goods from 2001 to 2003 are shown below:

	Non-organic vegetables	Organic vegetables	Clothing
2000 price per unit	\$1	\$2	\$20
2001 price per unit	\$2	\$2	\$18
2002 price per unit	\$3	\$4	\$20

(a) Calculate the following:

(i) the CPI for year 2001 and 2002 (5 marks)

(ii) the inflation rate for year 2001 and 2002 (4 marks)

(b) The following table shows the labour statistics of Country Highland in 2011.

Labour (Statistics)	2010	2011
Total Population (million)	225	240
Not in the labour force (million)	50	52
Employed (million)	165	180

(c) Calculate:

(i) The labour force for years 2010 and 2011 (4 marks)

(ii) The unemployment rate for both years (4 marks)

(d) Based on your answer in (b) (i), in which year was the unemployment rate the highest? (1 mark)

(e) Suggest and explain **ONE (1)** fiscal measure to curb high unemployment rates. (2 marks)

(Total: 20 marks)

SECTION C: Answer any ONE (1) question in the answer booklet provided. (20 marks)

Question 1

- (a) Using examples, explain structural and frictional unemployment. (8 marks)
- (b) Explain how open market operation is used to reduce the country's cyclical unemployment.

[Note: Include the money market diagram and the AD-AS diagram in your answer.] (12 marks)

(Total: 20 marks)

Question 2

- (a) Explain and illustrate with diagrams how the following macroeconomic policies can be used to influence the general level of economic activity.
- (i) Fiscal policy (5 marks)
- (ii) Monetary policy (5 marks)
- (b) Briefly explain any **FIVE (5)** types of protectionism imposed by the government. (10 marks)

(Total: 20 marks)