



FINAL
Examination Paper

(COVER PAGE)

Session : AUGUST 2017

Programme : Diploma In Business (DIB)

Course : ECO2104/2105: Principles Of Macroeconomics

Date of Examination : 13 December, 2017 (Wednesday)

Time : 8:00 am – 10:00 am 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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This paper consists of 10 printed pages, including the cover page

DIPLOMA IN BUSINESS PROGRAMME (DIB)
DIPLOMA IN FINANCE PROGRAMME (DIF)
DIPLOMA IN ENTREPRENEURSHIP PROGRAMME (DIE)
ECO 2104/2105: PRINCIPLES OF MACROECONOMICS
FINAL EXAMINATION: AUGUST 2017 SESSION

SECTION A: (40 marks)

Instruction: This section consists of 20 questions. Answer **ALL** questions in the OMR sheet provided below. **Each question carries 2 marks.**

1. Which of the following is related to macroeconomics?
 - A. An empirical analysis of general price levels and unemployment rates since 1999.
 - B. A study of how price mechanism takes place in the market.
 - C. An increase in the price of the vegetables.
 - D. Demand and supply of IT graduates.

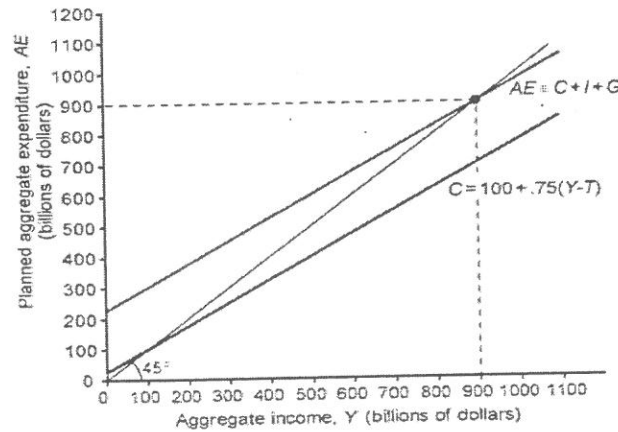
2. In expenditure approach, GDP is measured by the summation of:
 - A. $C + I + G + (X - M)$
 - B. $C - I + G + (X - M)$
 - C. $C + I + G + (X + M)$
 - D. $C + I + G - (X - M)$

3. Given that Malaysia's nominal GDP is RM40 billion and real GDP is RM25 billion, calculate the GDP deflator.
 - A. 120
 - B. 130
 - C. 140
 - D. 160

4. Nominal GDP refer to,
 - A. The value of product produced domestically.
 - B. The production of goods and services valued at current price.
 - C. The production of goods and services valued at constant price.
 - D. The value of final goods and services produced domestically.

5. A Malaysian farmer buys a new tractor made in Kedah by a German company. As a result _____.
- A. Malaysia's investment and GDP increases, but Germany's GDP is unaffected
 - B. Malaysia's investment and Germany's GDP increase, but Malaysia's GDP is unaffected
 - C. Malaysia's investment, Malaysia's GDP, and Germany's GDP are unaffected, because tractors are intermediate goods
 - D. Malaysia's investment, Malaysia's GDP, and Germany's GDP all increase
6. Inflation is measured by an increase in:
- A. Prices of all products in the economy.
 - B. Home, autos and basic resources.
 - C. Employment rate.
 - D. Salary.
7. When marginal propensity to save $MPS = 0.3$ and autonomous consumption is RM30 billion then,_____.
- A. the marginal propensity to consume, $MPC = 0.7$
 - B. the marginal propensity to consume, $MPC = 0.3$
 - C. consumption spending = RM10 billion
 - D. consumption spending = RM900 billion
8. Which of the following is considered to be frictional unemployment?
- A. Unemployment causes by time required to find a suitable jobs.
 - B. Unemployment causes by structural change in economy.
 - C. Unemployment causes by decrease in aggregate demand.
 - D. Unemployment causes by high wages in economy.
9. The use of automated teller machines (ATMs) has caused some bank tellers to lose their jobs. This is an example of _____ unemployment.
- A. cyclical
 - B. seasonal
 - C. frictional
 - D. structural

10. Refer to the graph below. In this economy, $T = 100$, $I = 100$ and $G = 100$. How much is the value of planned aggregate expenditure (AE) when output equals 500 billion dollars?



- A. 500 billion dollars
 B. 600 billion dollars
 C. 575 billion dollars
 D. 700 billion dollars
11. Which of the following determines the amount a bank can lend to its customers?
 A. Non – performing loans
 B. Required reserve
 C. Excess reserve
 D. None of the above
12. When both the demand for money and supply of money increases, the equilibrium quantity of money _____ and equilibrium interest rate _____
 A. Cannot be determined; increases
 B. Increases; cannot be determined
 C. Decreases; cannot be determined
 D. Cannot be determined; decreases
13. Which of the following are the function of money:
 A. Medium of exchange.
 B. Unit of exchange.
 C. Store of wealth.
 D. All of the above.

14. Equilibrium in money market is achieved when:
- A. Money demand curve intercepts with money supply curve.
 - B. Quantity of money demanded is more than money supplied.
 - C. Quantity of money supplied is more than money demanded.
 - D. Central bank intervenes in the financial market.
15. 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. When interest rate increases, quantity for money demanded will:
- A. Decrease.
 - B. Increase.
 - C. Unchanged.
 - D. Shift to the right.
17. If central bank implemented expansionary monetary policy, the market interest rate will:
- A. Decrease.
 - B. Increase.
 - C. Unchanged.
 - D. Undetermined.
18. International trade involves,
- A. Import and export of goods and services between countries.
 - B. Export of goods and services to other countries.
 - C. Trading within country.
 - D. Import of goods and services to other countries.

19. The terms of trade reflects the _____
- A. Differences between invisible imports and invisible exports
 - B. Ratio at which nations will exchange two types of goods
 - C. Gains from trade that will be equally divided
 - D. None of the above
20. The price of one country's currency in terms of another country's currency is called the _____ Inflation rate.
- A. Terms of trade.
 - B. Exchange rate.
 - C. Currency valuation.
 - D. Money creation

SECTION B: (40marks)

Instruction: Answer any **TWO (2)** questions out of the three questions provided. **Each question carries 20 marks.**

Question 1

(a) The following table shows the value of economic activities of a country in 2012.

Items	RM (million)
Consumption Expenditure	30
Exports	10
Government Expenditure	25
Change in stock	-5
Personal income tax	3
Imports	15
Taxes on expenditure	10
Transfer payment	5
Wages and salaries	30
Capital consumption	5
Employees Provident Fund (EPF)	2
Subsidies	4
Net factor income from abroad	50
Private investment	20

Calculate:

- (i) Gross domestic product at factor cost (3 marks)
 - (ii) Gross national product at market price (3 marks)
 - (iii) Gross national product at factor cost (3 marks)
 - (iv) National income (3 marks)
 - (v) Disposable personal income (4 marks)
- (b) Use the following information to answer the question. There are three firms in an economy: X, Y, and Z. Firm X buys \$200 worth of goods from Y, and \$300 worth of goods from firm Z, and produces 250 units of output at \$4 per unit. Firm Y buys \$150 worth of goods from firm X, and \$250 worth of goods from firm Z, and produces 300 units of output at \$6 per unit. Firm Z buys \$75 worth of goods from firm X, and \$50 worth of goods from firm Y, and produces 500 units at \$2 per unit. Given this information, what is the economy's GDP? (4 marks)

Question 2

In a closed economy, the national savings function for Country Z is $S = -150 + 0.35Y$ and investment $(I) = \text{RM } 275$ million.

(a) Complete the following schedule.

National Income (Y) RM [million]	Savings (S) RM [million]	Consumption RM [million]	Investment (I) RM [million]
0			
250			
500			
750			
1,000			
1,250			
1,500			
1,750			
2,000			

(6 marks)

(i) Derive the consumption function.

(2 marks)

(ii) Calculate the equilibrium national income for Country Z.

(2 marks)

(iii) If the government increases salaries for government servants by RM175 million, what is the new equilibrium national income?

(3 marks)

(b) The following table shows the consumption function, taxation, government spending and investment of Countries X and Y in year 2012 [all values are in RM billion].

Items	Country X	Country Y
Consumption function	$C = 150 + 0.75Y_d$	$C = 150 + 0.75Y_d$
Taxation	$T = 60$	$T = 0.2Y$
Government spending	$G = 75$	$G = 200$
Investment	$I = 50$	$I = 150$

(i) Calculate the equilibrium national income of Countries X and Y, respectively.

(4 marks)

(ii) Calculate the tax multiplier for both countries.

(3 marks)

Question 3

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

(a) Calculate:

- (i) The labour force for years 2010 and 2011. (4 marks)
- (ii) The unemployment rate for both years. (4 marks)
- (iii) Based on your answer in (a) (i), in which year was the unemployment rate the highest? Suggest **ONE (1)** policy to curb high unemployment rate. (2 mark)

(b) (i) Complete the following table.

Years	Consumer price index (CPI)	Working age population [million]	Labour force [million]	Employed	Labour force participation rate (%)	Unemployment rate (%)
2002	100	35	30	25		
2003	122	38	32	26.5		
2004	135	42	35	28		

(4 marks)

- (ii) Based on the given information, explain what happens to the labour force participation rate and unemployment rate from 2002 -2004. (3 marks)
- (iii) Calculate the rate of inflation for the year 2004. (3 marks)

SECTION C: (20 marks)

Instruction: Answer any **ONE (1)** questions out of the two questions provided. **Each question carries 20 marks**

Question 1

- (a) Differentiate between demand pull inflation and cost push inflation, with an illustration of diagrams. (10 marks)

- (b) Briefly discuss how banks create credit in the economy. Provide numerical examples to support your answers. (10 marks)

Question 2

- (a) Briefly explain **THREE (3)** gains from international trade. (6 marks)

- (b) Discuss any **THREE (3)** tools of protectionism imposed by the government. (6 marks)

- (c) Using graphs, explain the inflationary and deflationary gaps of an economy. (8 marks)

~The end~

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