

 **INTI International  
University & Colleges**

**FINAL  
Examination Paper**

(COVER PAGE)

Session : APRIL 2018

Programme : Diploma In Business (DIB)

Course : ECO2104/2105: Principles Of Macroeconomics

Date of Examination : August 01, 2018 (Wednesday)

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

Examiner(s) : Yee Aik Phoay, Cheah Kong Ming, Timmy Ng and Nageswari

Moderator : Dr Sumitha Ganesharatnam

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

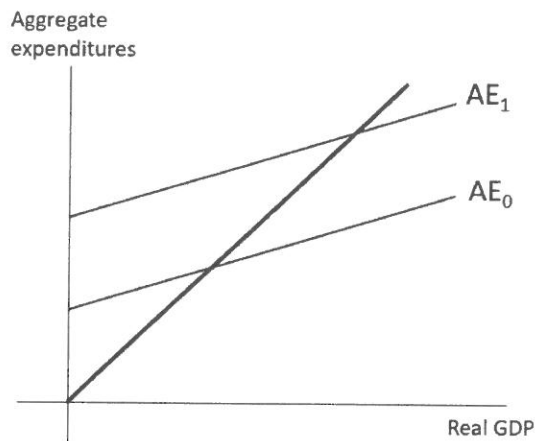
DIPLOMA IN BUSINESS PROGRAMME (DIB)  
ECO2104/2105: PRINCIPLES OF MACROECONOMICS  
FINAL EXAMINATION: APRIL 2018 SESSION

**SECTION A (40%)**

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

1. Which of the following topics is categorized as a macroeconomics topics?
  - A. the removing of price ceilings in the farming industry
  - B. the drop in sales for GAP stores in Malaysia
  - C. the effect of higher government spending on real GDP
  - D. None of the above.
  
2. When the government of Country A targets to increase real GDP by 7%, the government is aiming to achieve \_\_\_\_\_.
  - A. full employment
  - B. strong economic growth
  - C. low inflation rate
  - D. strong exchange rate
  
3. A higher real GDP per capita may not mean that the quality of life has really improved because
  - A. it measures wealth, not income.
  - B. it measures income at current prices.
  - C. it does not measure the quality of items produced.
  - D. it is only measured every five years.
  
4. Which of the following statements is true about circular flow?
  - A. Output is greater than income.
  - B. Income is more than expenditure.
  - C. Output is less than expenditure.
  - D. Output equals income equals expenditure.

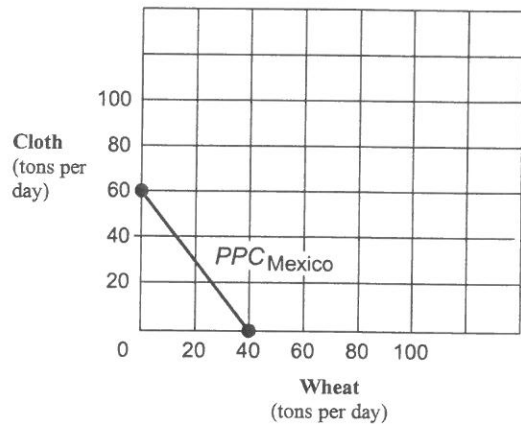
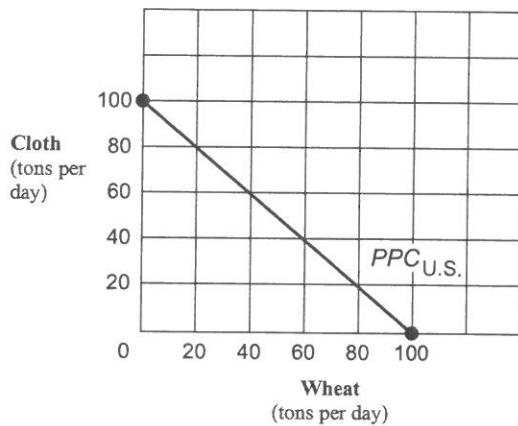
5. If the Keynesian consumption function is  $C = 10 + 0.8Y_d$ , what is the amount of total consumption when disposable income is RM 5000?
- RM 4010
  - RM 4000
  - RM 0.80
  - RM 0.802
6. As Marginal Propensity to Consume (MPC) rises,
- the multiplier value decreases.
  - the multiplier value increases.
  - the multiplier value stays the same.
  - None of the above.
7. Refer to the following Keynesian diagram.



- Which of the following causes the aggregate expenditures function to shift from  $AE_0$  to  $AE_1$ ?
- contractionary fiscal policy
  - producers' confidence improves
  - an expectation that prices will fall
  - open market selling
8. If the marginal propensity to consume is 0.8, a RM100 billion decrease in government spending would cause equilibrium output to
- increase by RM100 billion.
  - decrease by RM100 billion.
  - increase by RM500 billion.
  - decrease by RM500 billion.

9. Money functions as a store of value if it allows you to
- A. measure the value of goods in a reliable way.
  - B. makes the exchange of goods easier.
  - C. increase your confidence towards money.
  - D. delay purchases until you want the goods.
10. An asset's liquidity refers to its ability to be
- A. bought and stored.
  - B. higher in value over time.
  - C. a means of payment.
  - D. used and enjoyed.
11. Emira is a fresh university graduate who is actively searching for her first job. She is
- A. in the labor force and classified in structural unemployment.
  - B. underemployed.
  - C. not in the labor force yet because she has not started working.
  - D. None of the above.
12. Cyclical unemployment is mainly a result of
- A. recession.
  - B. mismatch in skills.
  - C. seasonal changes.
  - D. structural change in the economy.
13. The Phillips curve shows
- A. the negative relationship between inflation and unemployment rate.
  - B. the negative relationship between unemployment and growth rate.
  - C. the positive relationship between inflation and unemployment rate.
  - D. the positive relationship between unemployment and growth rate.
14. Identify the correct order of the four phases of business cycle.
- A. peak, trough, upturn, downturn
  - B. peak, downturn, trough, upturn
  - C. peak, upturn, trough, downturn
  - D. peak, downturn, upturn, trough

15. If the central bank sets 50% as the required reserve ratio, what is the country's money multiplier?
- A. 3.0
  - B. 2.5
  - C. 2.0
  - D. 3.2
16. A restriction on the quantity that can be imported is known as
- A. tariff.
  - B. quota.
  - C. minimum import quantity.
  - D. administrative barriers.
17. Refer to the following production possibilities curve of U.S. and Mexico.



In the U.S., the opportunity cost to produce 1 tonne of cloth equals to \_\_\_\_\_. In Mexico, the opportunity cost to produce 1 tonne of cloth equals to \_\_\_\_\_.

- A. 1 tonne of wheat; 0.67 tonne of wheat
  - B. 1 tonne of wheat; 1.5 tonnes of wheat
  - C. 100 tonnes of wheat; 40 tonnes of wheat
  - D. 100 tonnes of wheat; 60 tonnes of wheat
18. With reference to your answer in Question 17, U.S. should specialize in the production of
- A. cloth.
  - B. wheat.
  - C. both goods.
  - D. None of the above.

19. With freer trade,
- consumers will have more choices.
  - domestic producers are opened to greater competition.
  - imported goods become relatively cheaper.
  - All the above.
20. In order to protect a nation's infant industry, tariff has to be
- increased.
  - reduced.
  - abolished.
  - replaced by quota.

### SECTION B (40%)

Answer any **TWO (2)** questions in the answer booklet provided. **Each question carries 20 marks.** All relevant workings must be shown clearly and leave answers in **2 decimal points** whenever appropriate.

#### Question 1

Country Z started off as a 2-sector economy with the following aggregate expenditure functions:

$$\begin{aligned} \text{Consumption expenditure, } C: &= \$8,000 + 0.90Y \\ \text{Investment expenditure, } I: &= \$5,000 \end{aligned}$$

After 5 years as a 2-sector economy, the people in the country voted to form a government. Due to this change, the country's aggregate expenditures became:

$$\begin{aligned} \text{Consumption expenditure, } C: &= \$8,000 + 0.80Y_d \\ \text{Investment expenditure, } I: &= \$7,500 \\ \text{Government expenditure, } G: &= \$20,000 \\ \text{Tax, } T &= \$2,000 \end{aligned}$$

- Calculate the country's equilibrium level of national income **before and after** forming the government. (8 marks)
- Find the percentage change in equilibrium national income. (2 marks)
- Draw a diagram to illustrate what happened in the 3-sector economy if the country's full employment national income equals to \$150,000. (5 marks)

- (d) Name the situation that you illustrated in part (c).  
(1 mark)
- (e) If the government targets to achieve full employment, how should the government adjust its spending? Use the multiplier formula to derive your answer.  
(4 marks)

### Question 2

- (a) Refer to the following table.

Items	Billions of dollars
Wages paid to labor	815
Consumption expenditures	885
Net national product at market price	1,210
Gross private domestic investment	304
Government expenditures	357
Net exports	32
Depreciation	202

- (i) Calculate the country's Gross Domestic Product at market price.  
(2 marks)
- 
- (ii) Calculate the country's Net Domestic Product at market price.  
(2 marks)
- (iii) Using your results to part (ii) and the information above, is the income earned by the foreigners in the country greater than the income earned by the citizens abroad? Briefly explain.  
(3 marks)
- (b) The table below provides data on the economy of Country K that produces only fish and fish fillet. **All fishes caught are used to produce the fillet.**

	2011	2012
<b>Quantities</b>		
Fish	1,000 tonnes	1,100 tonnes
Fish fillet	500 boxes	750 boxes
<b>Price</b>		
Fish	\$20 per tonne	\$30 per tonne
Fish fillet	\$100 per box	\$80 per box

- (i) Calculate the country's real GDP in **2011 and 2012** with 2011 as the base year.  
(4 marks)
- (ii) Find the GDP deflator of both years.  
(4 marks)

- (iii) Determine the country's economic growth rate in year 2012. (2 marks)
- (iv) Briefly explain why real GDP is a better measurement of the country's economic growth. (3 marks)

### Question 3

- (a) The following table shows the CPI of a Country Z from 2002 to 2004.

	2002	2003	2004
CPI	88.5	100	105.4

- (i) Define Consumer Price Index (CPI). (2 marks)
- (ii) Identify the base year from the information given above. (1 marks)
- (iii) Calculate the country's inflation rate in year 2003 and 2004. Is the inflation rate rising? (5 marks)
- (iv) Jenny is currently working in the country as a primary school teacher. Her nominal salary from 2002 to 2004 is shown below.

	2002	2003	2004
Nominal salary	\$2,000	\$2,200	\$2,500

Is Jenny's real salary increasing from year to year within the 2002 to 2004 period? Support your answer with suitable calculations.

(7 marks)

- (b) Refer to the following balance sheet of Bank DAMAI.

Bank DAMAI: Balance Sheet

Assets		Liabilities	
Reserve	RM250	Deposits	RM1,000
Loans	RM750		
Total	RM1,000	Total	RM1,000

- (i) Calculate the bank's reserve ratio. (2 marks)
- (ii) If all the banks within a country have the same reserve ratio as Bank DAMAI, calculate the amount of loans that can be created when a new deposit of RM2000 is received. (3 marks)

**SECTION C (20%)**

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

**Question 1**

- (a) Using AD-AS diagrams, explain **TWO (2)** main types of inflation. (10 marks)
- (b) Starting from an inflationary gap position, explain how open market operation and reserve ratio are used to control inflation. An AD-AS diagram needs to be included as part of the answer. (10 marks)

**Question 2**

- (a) Briefly explain the following terms:
- (i) Labor force (3 marks)
  - (ii) Discouraged workers (3 marks)
  - (iii) Structural unemployment (3 marks)
  - (iv) Full employment (3 marks)
- (b) Starting from recessionary gap position, explain how fiscal policy is used to solve cyclical unemployment. An AD-AS diagram needs to be included as part of the answer. (8 marks)

~ The End ~

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