

FINAL
Examination Paper

(COVER PAGE)

Session : AUGUST 2018

Programme : Diploma In Business (DIB)

Course : ECO2104/2105: Principles Of Macroeconomics

Date of Examination : 13 December 2018, (Thursday)

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 8 printed pages, including the cover page

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

Section A: (40 marks)

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

1. The _____ is an example of a macroeconomics topic.
 - A. rising price of housing in Malaysia
 - B. Malaysia's inflation rate
 - C. effect of import tax on sales of Proton cars
 - D. lower sales of Sony smartphones in Malaysia

2. Compared to nominal GDP, real GDP is a better measurement for economic growth because _____.
 - A. the value of depreciation is excluded
 - B. a country's real level of pollution is considered
 - C. the inflationary effects are removed
 - D. value of intermediate goods are not counted in real GDP

3. Gross National Product at market price - Capital consumption + Subsidies - Indirect taxes equals _____.
 - A. Net National Product at factor cost
 - B. Net National Product at market price
 - C. Gross Domestic Product at factor cost
 - D. Gross Domestic Product at market price

4. The best measure of the standard of living in a country is _____.
 - A. personal disposable income
 - B. the purchasing power of money
 - C. per capita personal consumption
 - D. real gross domestic product

5. Which one of the following is the equilibrium level of national income for a Four Sector Economy?
- A. $Y = C + I$
 - B. $Y = C + I + G$
 - C. $I + G + M = S + T + X$
 - D. $Y = C + I + G + (X - M)$
6. A rise in the marginal propensity to save will cause the value of the Keynesian multiplier in a two sector economy to _____.
- A. fall
 - B. rise
 - C. remain constant
 - D. remain unchanged
7. In the circular flow model of an economy, the level of National Income will always reach equilibrium because _____.
- A. export equals import
 - B. injections and leakages are always equal
 - C. withdrawal is a function of the level of income
 - D. government taxation equals government expenditures
8. Which of the following has a contractionary effect on equilibrium output and employment?
- A. A fall in tax rates
 - B. A rise in the budget deficit
 - C. A rise in the marginal propensity to save
 - D. A rise in the marginal propensity to consume
9. How does a government implement expansionary fiscal policy?
- A. Increase interest rate.
 - B. Increase public expenditure.
 - C. Instruct Bank Negara to increase Reserve Ratio.
 - D. Instruct Bank Negara to buy back bond in open market.

10. Cyclical unemployment refers to unemployment _____.
- A. which occurs during recessions
 - B. due to improvements in technology
 - C. which occurs due to a decline of an industry
 - D. which occurs because of the seasonal nature of certain industries
11. Structural Unemployment that exists in an economy is caused by which of the following?
- A. High interest rate.
 - B. People changing jobs.
 - C. A lack of aggregate demand.
 - D. Improvement of technology and caused mismatch of labor skills.
12. Which of the following is **NOT** an effect of inflation?
- A. Savings would be eroded.
 - B. Exports become relatively cheaper.
 - C. Production investments are discouraged.
 - D. The purchasing power of money would be eroded.
13. Which of the following would result in 'demand pull inflation'?
- A. Decrease in wage rates
 - B. Decrease in interest rates
 - C. Appreciation of the domestic currency
 - D. Economy is operating below full employment
14. A house is \$100,000, a computer is \$2,000, and a car is \$20,000. In this context, money is principally functioning as a _____.
- A. unit of account
 - B. store of value
 - C. medium of exchange
 - D. none of the above

15. Which of the following best illustrates the medium of exchange function of money?
- A. You keep some money hidden in your shoe.
 - B. You keep track of the value of your assets in terms of currency.
 - C. You pay for your oil change using ringgit.
 - D. None of the above is correct.
16. Which of the following is true?
- A. Reserves = required reserves - excess reserves.
 - B. Reserves + required reserves = excess reserves.
 - C. Reserves = required reserves + excess reserves.
 - D. None of above
17. A country's central bank uses reserve ratios as a means of controlling the lending of commercial banks. If other things remain constant, an increase in the reserve ratio will cause _____.
- A. interest rate to fall
 - B. the supply of money to fall
 - C. the transaction demand for money to rise
 - D. the marginal propensity to consume to rise
18. Monetary Policy tools include:
- A. Discount Rate
 - B. Open Market Operation
 - C. Require Reserve
 - D. All of above
19. Trade restriction include:
- A. Tariff
 - B. Quota
 - C. Export subsidies
 - D. All of above

20. Balance of Payment can be best describe as _____.
- A. record of a country's transactions in goods, services, and assets with the rest of the world
 - B. record of a country's transactions in goods with the rest of the world
 - C. record of a country's transactions in services with the rest of the world
 - D. record of a country's transactions in assets with the rest of the world

Section B: (40 marks)

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

Question 1

- (a) The table shows figures related to the National Income of Country K, in year 2014.

Items	RM millions
Consumption	25,000
Government Expenditure	10,000
Gross Investment	5,000
Net Foreign Factor Income	2,000
Exports	7,000
Imports	3,000
Depreciation	1,000
Subsidy	500
Indirect Taxes	2,300

Calculate the values of:

- (i) Gross Domestic Product (GDP) at market price. (3 marks)
 - (ii) Gross National Product (GNP) at market price. (3 marks)
 - (iii) Gross National Product at factor cost. (3 marks)
 - (iv) Net National Product (NNP) at factor cost. (3 marks)
- (b) Given the Consumer Price Index (CPI) is at the level of 110. Calculate the real GDP for Country K in year 2014. (3 marks)

- (c) In year 2013, the real GDP for Country K is only at RM39500 million. Calculate the real GDP growth rate for year 2014. (3 marks)
- (d) According to answer in (c), provide rational justification about the growth rate. (2 marks)

Question 2

Given information as per below in Country J:

Disposable Income (Yd)	0	100	200	300
Consumption (C)	100	190	280	370

- (a) Identify the Autonomous Expenditure value and calculate Marginal Propensity to Consume (MPC) according to table given. (3 marks)
- (b) Construct the Consumption function and derive the Saving Function. (4 marks)
- (c) Given Investment (I) is at RM200 billion, Government Expenditure is at RM150 billion and Tax is at RM30 billion. Calculate the equilibrium National Income. (4 marks)
- (d) Given National Income at full employment level is RM4500 billion. Illustrate this situation with the Income-Expenditure Approach diagram and identify the economic problem that has occurred. (5 marks)
- (e) Recommend to the government of Country J the appropriate policy to solve the economic problem in question (d). (4 marks)

Question 3

M Bank has vault cash in the amount of RM300, 000, loans of RM900, 000, and deposits of RM1, 200,000.

- (a) Prepare a balance sheet for this bank. (4 marks)
- (b) If the bank maintains a reserve requirement of 5 percent, what is the largest amount of new loan it can make? (5 marks)
- (c) What is the maximum amount the money supply can be increased as a result of M Bank's new loan? (3 marks)
- (d) With the aid of diagrams, determine the effect of tariffs and quota on a country's output, and the price of the product on which tariff and quota are applied.

(8 marks)

Section C: (20 marks)

Instruction: Answer **ONE (1)** question out of the two questions provided.

Question 1

- (a) Explain the main **THREE (3)** types of Unemployment with appropriate examples.
(6 marks)
- (b) Explain the main **TWO (2)** types of Inflation with appropriate diagrams.
(8 marks)
- (c) Explain the short run relationship between Unemployment and Inflation with an appropriate diagram.
(6 marks)

Question 2

- (a) Explain in detail and with the aid of a diagram how Expansionary Fiscal Policy can be used to solve the Unemployment issue.
(8 marks)
- (b) Explain in detail and with the aid of a diagram how Contractionary Monetary Policy can be used to solve the Inflation issue.
(12 marks)

~ The End ~

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