

 **INTI** International
University & Colleges

FINAL
Examination Paper
(COVER PAGE)

Session : JANUARY 2018

Programme : Diploma In Business (DIB)

Course : ECO2104/2105: Principles Of Macroeconomics

Date of Examination : 9 March, 2018 (Friday)

Time : 11:00 am – 1:00 pm 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) : Nageswari, Timmy Ng and Cheah Kong Ming

Moderator : Dr Sumitha Ganesharatnam

This paper consists of 11 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: JANUARY 2018 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. The _____ is an example of a macroeconomics topic.
 - A. Effects of tax on sales of domestic automobile market.
 - B. Economy inflation rate.
 - C. Classification of market structure.
 - D. Utility theory.

2. Equilibrium in macroeconomics refers to _____.
 - A. Total value of output being produced more than total value of expenditure.
 - B. Aggregate supply being greater than aggregate demand.
 - C. Aggregate demand being greater than aggregate supply.
 - D. Aggregate demand being equal to aggregate supply

3. 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. $C + I + G - (X - M)$

4. Given that Malaysia's nominal GDP is RM30 billion and real GDP is RM20 billion, calculate the GDP deflator.
 - A. 120
 - B. 130
 - C. 140
 - D. 150

5. If the consumption function is $C = 250 + 0.75Y$ and investment is $I = RM450$, find the equilibrium income in this two-sector economy.
- A. RM2,800
 - B. RM3,600
 - C. RM7,200
 - D. RM9,000
6. The multiplier tends to increase, if the
- A. Marginal propensity to import increases
 - B. Marginal propensity to save decreases
 - C. Marginal propensity to consume increases
 - D. None of the above.
7. A deficit budget occurs when _____
- A. The government's total expenditure exceeds revenue
 - B. The government's total expenditure equals revenue
 - C. Tax collection exceeds government expenditure
 - D. The public debt decreases
8. The effects of expansionary fiscal monetary policy is a[n] _____
- A. Increase in interest rate
 - B. Decrease in interest rate
 - C. Increase in government expenditure
 - D. Decrease in government expenditure
9. All of the following are examples of direct tax, except
- A. Personal income tax
 - B. Company tax
 - C. Real property gain tax
 - D. Service tax
10. Which of the following is considered to be frictional unemployment?
- A. Unemployment caused by time required to find a suitable job.
 - B. Unemployment caused by structural change in economy.
 - C. Unemployment caused by decrease in aggregate demand.
 - D. Unemployment caused by high wages in economy.

11. During a recovery, _____
- A. Both employment and output increases
 - B. Both employment and output decreases
 - C. Employment decreases but output increases
 - D. Employment increases and output decrease
12. Which of the following would be classified as unemployment?
- A. A person who has given up looking for a job, after job hunting for a long time.
 - B. A person who quits his/her job and attends college.
 - C. A graduate who is looking for a job.
 - D. All of the above.
13. 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.
14. Below are the cost of inflation except:
- A. The social cost.
 - B. The menu cost.
 - C. Income redistribution.
 - D. The leather cost of shoes.
15. A progression of the money supplies from most liquid to least liquid would look like:
- A. M1, M3, M4.
 - B. M1, M2, M3.
 - C. M1, M3, M2.
 - D. None of the above.
16. 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.

17. Financial intermediaries are:
- A. Banks and others financial institutions that act as a link between those who have money to lend and those who want to borrow money.
 - B. Institutions that regulate bank.
 - C. Institutions that control money supply.
 - D. All of the above.
18. Money supply curve is vertical to show that:
- A. The quantity of money supply is dependent on interest rate.
 - B. The quantity of money supply is insensitive to interest rate.
 - C. The quantity of money supply is not dependent on interest rate.
 - D. The quantity of money supply is influence by financial intermediaries.
19. International trade involve,
- 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.
20. Comparative advantage is,
- A. The ability to produce a good efficiently using lesser resources.
 - B. The ability to produce a good at higher opportunity cost than another producer.
 - C. The ability to produce a good at lower opportunity cost than another producer.
 - D. The ability to produce a good more than another producer.

SECTION B: (40 marks)

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

Question 1

Answer the following question based on the data given below:

(a)

| Items | (\$ 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 |

- (i) Calculate the GDP at market price. (2 marks)
- (ii) Calculate the GDP at factor cost. (2 marks)
- (iii) Calculate the NDP at factor cost. (2 marks)

(b) In a closed economy, the national saving function for Country V is $S = -150 + 0.35Y$ and the investment is $I = 275$ million

(i) Fill up the table below.

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

(5 marks)

(ii) Calculate the equilibrium level of national income. (2 marks)

(iii) If the government increases salaries for government servants by RM 175 million, what is the new equilibrium national income? (2 marks)

(c) Given the total number in the labour force, complete the following table by calculating the total employed and the unemployment rate.

| Years | Total labour force (thousands) | Total employed (thousands) | Unemployment rate (%) |
|-------|-----------------------------------|-------------------------------|--------------------------|
| 1996 | 8,372.0 | 8,162.7 | |
| 1997 | 9,038.2 | 8,805.1 | |
| 1998 | 8,880.9 | | 3.2 |
| 1999 | 9,010.0 | | 3.0 |
| 2000 | 9,892.1 | | 3.6 |

(5 marks)

Question 2

Answer the following question based on the data given below:

(a)

| Items | RM [million] |
|-------------------------------|--------------|
| Government services | 1,000 |
| Net factor income from abroad | 250 |
| Transfer payment | 150 |
| Exports | 1,500 |
| Mining and Quarrying | 1,800 |
| Manufacturing | 1,500 |
| Indirect business tax | 400 |
| Depreciation | 100 |
| Subsidies | 150 |
| Private investment | 5,000 |
| Electricity, gas and water | 700 |
| Banking and tourism | 3,000 |
| Rent | 200 |

Calculate the:

- (i) Gross Domestic Product at market price (2 marks)
(ii) Gross National Product at factor cost (2 marks)
(iii) National Income (2 marks)

(b) Given is the information of an economy.

| | | |
|--------------------------------|---|----------------|
| Consumption [C] | = | $700 + 0.7Y_d$ |
| Investment [I] | = | 450 |
| Government expenditure [G] | = | 500 |
| Tax [T] | = | 350 |
| [All values are in RM million] | | |

Based on the above information, answer the following questions.

- (i) Find the value of marginal propensity to save (MPS). (2 marks)
- (ii) Derive the savings function from the consumption function. (1 mark)
- (iii) Calculate the equilibrium level of national income using the aggregate expenditure-aggregate supply approach [AE-AS] or [AD- AS] (3 marks)
- (iv) If the full employment level of income is RM4, 000 million, is there an inflationary or a deflationary gap. Draw a graph using [AD-AS] approach to show the situation. (3 marks)

(c) The population is 50 million, the labour force is 26 million, and the number of employed is 23.5 million. Calculate the unemployment rate. (2 marks)

(d) Based on the following information, identify the types of unemployment.

- (i) Hashim became jobless and he lacks marketable job skills. (1 mark)
- (ii) The construction workers were let go due to recession. (1 mark)
- (iii) Fresh graduates are currently seeking employment for the first time. (1 mark)

Question 3

(a) You are given the following information of Malaysia.

| Items | RM (million) |
|---|--------------|
| Compensation of employees | 194.2 |
| Consumption Expenditure | 219.1 |
| U.S exports | 17.8 |
| Depreciation | 11.8 |
| Government Expenditure | 59.4 |
| Income received from abroad | 14.4 |
| Indirect business taxes | 14.4 |
| Net private domestic investment | 52.1 |
| Transfer payment | 13.9 |
| U.S imports | 16.5 |
| Personal Taxes | 40.5 |
| Net foreign factor income earned in U.S | 2.2 |

Calculate the following:

- (i) Gross Domestic product (GDP) at market price (2 marks)
- (ii) Net Domestic Product (NDP) at market price (2 marks)
- (iii) National Income (NI) (2 marks)

(b) Iceland is a three sector economy. Given:

$$C = 200 + 0.75Y_d$$

$$I = 100$$

$$G = 50$$

$$T = 100$$

- (i) Derive the consumption and saving functions in terms of national income (Y). (2 marks)

(ii) Complete the table below

| Y | C | S | I | T | G | AD |
|------|---|---|-----|-----|----|----|
| 400 | | | 100 | 100 | 50 | |
| 600 | | | 100 | 100 | 50 | |
| 800 | | | 100 | 100 | 50 | |
| 1000 | | | 100 | 100 | 50 | |
| 1200 | | | 100 | 100 | 50 | |
| 1400 | | | 100 | 100 | 50 | |

(3 marks)

(iii) Determine the national income at equilibrium of this economy. (2 marks)

(iv) If national income at full employment is 1500, determine the deflationary gap.

(2 marks)

(c) The table below shows the total population, labour force and the total employment of Malaysia in 2000 and 2001 (in thousands).

| | 2000 | 2001 |
|------------------|--------|--------|
| Total Population | 18000 | 18500 |
| Labour force | 6834.1 | 7046.5 |
| Total employment | 6350.8 | 6621.0 |

(i) Calculate the unemployment rate for the years 2000 and 2001. (4 marks)

(ii) Based on the answer in (a), in which year was the unemployment rate the highest?

(1 mark)

SECTION C: (20 marks)

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

Question 1

- (a) Differentiate between expansionary fiscal policy and contractionary fiscal policy. (6 marks)
- (b) Define credit creation. Explain any **THREE (3)** Keynesian motives of demand for money. (7 marks)
- (c) Differentiate between the theory of absolute advantage and the theory of comparative advantage, with appropriate numerical example. (7marks)

Question 2

- (a) Using a graph, briefly explain how discount rate can be used to reduce inflation. (6 marks)
- (b) Briefly explain the **THREE (3)** components of money supply. (7 marks)
- (c) Define exchange rate, and differentiate between fixed exchange rate and floating exchange rate. (7 marks)

~The end~

