

**INTI**

INTERNATIONAL COLLEGE PENANG (507232-U)

LAUREATE INTERNATIONAL UNIVERSITIES

FINAL  
Examination Paper

(COVER PAGE)

Session : January 2013

Programme : Diploma in Business Administration Programme

Course : **ECO2101 : Principles of Macroeconomics**

Date of Examination : 4 March 2013

Time : 2p.m. – 4p.m. Reading Time : Nil

Duration : 2 Hours

Special Instructions :

This paper consists of **SIX (6)** questions. Answer any **FOUR (4)** questions in the answer booklet provided. All questions carry equal marks.

Materials permitted : Non-Programmable Calculator

Materials provided : Nil

Examiner(s) : **Sara Seah Peng Teng**

Moderator : **Yee Aik Phoay**

*This paper consists of 4 printed pages, including the cover page.*

## INTI INTERNATIONAL COLLEGE PENANG

DIPLOMA IN BUSINESS ADMINISTRATION (DBADI)  
 ECO 2101: PRINCIPLES OF MACROECONOMICS  
 FINAL EXAMINATION : JANUARY 2013 SESSION

**Instructions:** This paper consists of **SIX (6)** questions. Answer any **FOUR (4)** questions in the answer booklet provided. All questions carry equal marks.

**Question 1**

- (a) Explain what is meant by “the economy is in equilibrium”. (3 marks)
- (b) You’ve given the following information about Country A:

Disposable Income (Yd)	0	100	200	300
Consumption (C)	100	175	250	325

Investment :  $I = 200$   
 Government spending :  $G = 100$

- (i) Find MPC, autonomous consumption and derive the consumption function (in terms of disposable income). (5 marks)
- (ii) Find MPS and derive the savings function (in terms of disposable income). (4 marks)
- (iii) Determine the equilibrium level of national income using both “income-expenditure” and “injection-leakage” methods. Show all working. (8 marks)
- (iv) Calculate the size of the multiplier for the economy. Show all working. (2 marks)
- (v) Find new equilibrium national income if the government decides to increase its expenditure to 110. Use the expenditure multiplier to derive your answer. Show all working. (3 marks)

**Question 2**

- (a) Explain:
- (i) The mechanism by which credit is created with the aid of numerical examples. (9 marks)

- (ii) The effect of credit creation on the money supply. (4 marks)
- (iii) Two factors causing the actual expansion of the money supply to differ from that given by the multiplier. (4 marks)
- (b) Distinguish between M1 and M2 money. (4 marks)
- (c) Distinguish between commodity money and fiat money. (4 marks)

### Question 3

- (a) Explain the various causes of inflation with the aid of diagrams. (10 marks)
- (b) Outline THREE undesirable consequences of inflation. (9 marks)
- (c) Explain how a contractionary monetary policy brings about price stability. (6 marks)

### Question 4

- (a) Consider the following data for a nation:

Number of people employed	10.5 million
Number of people unemployed	0.5 million
Population ages 15-64	20.0 million
Total population	32.0 million

Calculate the labour force, labour force participation rate and the unemployment rate. (6 marks)

- (b) Explain the THREE primary types of unemployment. Provide an example for each. (12 marks)
- (c) Discuss the fiscal policies that the government can use to meet the economic objective of low unemployment of the nation. (7 marks)

### Question 5

- (a) Outline the THREE components of investment. (6 marks)

- (b) Given the following information for an economy in million units of money.

	(\$)
GDP at market price	3 000
Indirect business taxes	200
Subsidies	100
Capital consumption allowance	300
Factor payments to the rest of the world	40
Factor payments from the rest of the world	50

- (c) From the above data, find the following (show all workings):

- (i) Net domestic product at market price (2 marks)
- (ii) Net national product at market price (2 marks)
- (iii) Net national product at factor cost (2 marks)
- (d) Define the term Gross Domestic Product (GDP). State and explain THREE reasons why GDP is not a good measure of welfare. (13 marks)

### Question 6

- (a) Explain any FOUR arguments in favour of trade barriers. (12 marks)
- (b) With the aid of diagrams, explain the economic effect of tariffs. (5 marks)
- (c) Imagine that two countries, Country A and Country B, can produce just two goods, apple and orange. Assume that for a given amount of resources, the output of Country A and Country B is as follows:

	Apple	Orange
Country A	200	100
Country B	40	80

- (i) For each commodity, identify the country that has an absolute advantage. Explain your answer. (3 marks)
- (ii) For each commodity, identify the country that has comparative advantage. Explain your answer. (5 marks)

**--THE END--**