



**FINAL**  
Examination Paper

(COVER PAGE)

Session	:	<u>January 2015</u>
Programme	:	<u>Diploma in Business (DIB)</u> <u>Diploma in Business Administration (DBADI)</u>
Course	:	<u>ECO2104/2101 : PRINCIPLES OF MACROECONOMICS</u>
Date of Examination	:	<u>March 11, 2015</u>
Time	:	<u>2:00pm – 4:00pm</u> Reading Time : <u>Nil</u>
Duration	:	<u>2 Hours</u>
Special Instructions	:	
<p>This paper consists of <b>SIX (6)</b> questions. Answer any <b>FOUR (4)</b> questions in the answer booklet</p> <hr/> <p>provided. All questions carry equal marks.</p> <hr/>		
Materials permitted	:	<u>Non-Programmable Calculator</u>
Materials provided	:	<u>Nil</u>
Examiner(s)	:	<u>Mr. Khor Kok Chin, Borhan Abdullah, Cheah Kong Ming.</u>
Moderator	:	<u>Associate Professor Dr. Evelyn S Devadason</u>

*This paper consists of 5 printed pages, including the cover page*

INTI INTERNATIONAL COLLEGE SUBANG  
 DIPLOMA IN BUSINESS PROGRAMME (DIB)  
 ECO2104: PRINCIPLES OF MACROECONOMICS  
 FINAL EXAMINATION: JANUARY 2015 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) The data below is for Country M in year 2010.

	RM Billion
Transfer payments	58
Export	12
Import	7
Indirect taxes	32
Net foreign factor income	-5
Social security contribution	40
Personal taxes	100
Undistributed corporate profits	28
Gross private investment	587
Government purchases	259
Personal consumption	652
Depreciation	46
Subsidies	67
Corporate income taxes	35

On the basis of the above data, calculate the following:

- (i) Gross domestic product (GDP) at market price
(3 marks)
- (ii) Gross national product (GNP) at market price
(3 marks)
- (iii) Net national product (NNP) at market price
(3 marks)
- (iv) National income (NI)
(3 marks)

- (v) Personal income (PI) (3 marks)
- (vi) Disposable personal income (3 marks)
- (vii) Real National Income in year 2009 for Country M is RM1259 Billion. How much growth (in percentage) will Country M enjoy for year 2010 if 2010 is base year? (3 marks)
- (b) Explain **TWO (2)** purposes of measuring national income in a country. (4 marks)

### Question 2

- (a) Autonomous Consumption = RM200 million  
 Marginal Propensity of Consume = 0.8  
 Investment = RM700 million  
 Government Expenditure = RM500 million  
 Export = RM200 million  
 Import = RM150 million
- On the basis of the above data, calculate the following:
- (i) Saving function. (4 marks)
- (ii) National Income (Y). (3 marks)
- (iii) Multiplier (assume a 2 sector economy). (3 marks)
- (iv) If Investment (I) increases to RM1000 million, calculate the new National Income ( $Y_1$ ), using the Multiplier Approach. (3 marks)
- (b) Explain **FOUR (4)** factors that affect Investment level. (12 marks)

**Question 3**

- (a) Define Inflation. (2 marks)
- (b) Table below shows the base year and current year prices for two different items. Assume the number of units consumed for both goods remain unchanged.

Item	Base Year Price	Current Year Price	No. of units consumed
Food	1.50	2.00	200
Apparel	25.00	30.00	150

Calculate the following:

- (i) Total Expenditure according to Base Year Price. (2 marks)
- (ii) Total Expenditure in Current Year Price. (2 marks)
- (iii) Calculate Current Year Consumer Price Index (CPI). (4 marks)
- (iv) Calculate Inflation Rate (%) for current year. (4 marks)
- (c) (i) Define Stagflation. (2 marks)
- (ii) Explain the cause of Stagflation with appropriate diagram. (9 marks)

**Question 4**

- (a) Explain and illustrate graphically inflationary gap. (9 marks)
- (b) Explain the terms of Expansionary and Contractionary fiscal policy. (6 marks)
- (c) Using any appropriate diagram, explain the effects of increased government purchases on the composition of output. (10 marks)

**Question 5**

- (a) The reserve ratio for ABC Bank is 10 percent and it holds RM100, 000 in deposit. Suppose that ABC Bank does not hold any excess reserves.
- (i) Show a T – account for ABC Bank. **(1 mark)**
- (ii) One of the depositors withdraws RM30, 000 in cash and if ABC Bank has decided to restore its reserve ratio by reducing the amount of loans outstanding. Show a new T-account for ABC Bank according to above circumstance. **(2 marks)**
- (b) Using any appropriate diagram, show how an increase in money supply will influence the price level. **(10 marks)**
- (c) List and explain **FOUR (4)** main macroeconomics determinants that affect the demand for money. **(12 marks)**

**Question 6**

- (a) Define and explain with examples the flexible exchange rate system. **(3 marks)**
- b) Outline **TWO (2)** advantages and **TWO (2)** disadvantages of flexible exchange rates. **(8 marks)**
- c) Describe Balance of Payments. **(2 marks)**
- d) Distinguish between trade flows and financial flows in the Balance of Payments. **(4 marks)**
- e) Explain the effects of the following on the value of Ringgit Malaysia:
- (i) Increase in Malaysian export. **(2 marks)**
- (ii) Repatriation of funds by foreign investors. **(2 marks)**
- (iii) Increase in number of tourist visiting Malaysia. **(2 marks)**
- (iv) Increase in Malaysian tourists going overseas. **(2 marks)**

~ The End ~

*ECO2104(F)JAN2015*