

FINAL
Examination Paper

(COVER PAGE)

Session : January 2016

Programme : Diploma In Business (DIB)

Course : ECO2104: Principles Of Macroeconomics

Date of Examination : March 8, 2016 (Tuesday)

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 11 printed pages, including the cover page

DIPLOMA IN BUSINESS (DIB)
ECO2104: PRINCIPLES OF MACROECONOMIC
FINAL EXAMINATION: JANUARY 2016 SESSION

Section A: 40 Marks

There are **20** Multiple Choice Questions (MCQ). Answer **ALL** questions in the OMR sheet provided below. **Each question carries 2 marks.**

1. In a simple circular-flow diagram, total income and total expenditure are
 - A. never equal because total income always exceeds total expenditure.
 - B. seldom equal because of the ongoing changes in an economy's unemployment rate.
 - C. equal only when the government purchases no goods or services.
 - D. always equal because every transaction has a buyer and a seller.

2. Which of the following is a way to compute GDP?
 - A. add up the wages paid to all workers
 - B. add up the quantities of all final goods and services
 - C. add up the market values of all final goods and services
 - D. add up the difference between the market values of all final goods and services and then subtract the costs of producing those goods and services

3. For the purpose of calculating GDP, investment is spending on
 - A. stocks, bonds, and other financial assets.
 - B. real estate and financial assets such as stocks and bonds.
 - C. capital equipment, inventories, and structures, including household purchases of new housing.
 - D. capital equipment, inventories, and structures, excluding household purchases of new housing.

4. Which of the following statements about GDP is correct?
- A. Nominal GDP values production at current prices, whereas real GDP values production at constant prices.
 - B. Nominal GDP values production at constant prices, whereas real GDP values production at current prices.
 - C. Nominal GDP values production at market prices, whereas real GDP values production at the cost of the resources used in the production process.
 - D. Nominal GDP values production at the cost of the resources used in the production process, whereas real GDP values production at market prices.
5. Suppose some country had an adult population of about 50 million, a labor-force participation rate of 60 percent, and an unemployment rate of 5 percent. How many people were unemployed?
- A. 1.425 million
 - B. 1.5 million
 - C. 2.5 million
 - D. 5 million
6. A fresh law graduate searching for a place to begin his practice is an example of
- A. frictional unemployment.
 - B. structural unemployment.
 - C. seasonal unemployment.
 - D. cyclical unemployment.
7. When inflation rises, firms make
- A. more frequent price changes. This raises their menu costs.
 - B. more frequent price changes. This reduces their menu costs.
 - C. less frequent price changes. This raises their menu costs.
 - D. less frequent price changes. This reduces their menu costs.

8. If the consumption is $C = RM150 \text{ million} + 0.75Y_d$ and currently the deflationary output gap is RM140 million. How much does government need to spend to close the deflationary output gap?
- A. RM560 million.
 - B. RM540 million.
 - C. RM35 million.
 - D. RM38 million.
9. In the economy of Ukzten in 2010, consumption was \$1000, exports were \$100, government purchases were \$450, imports were \$150, and investment was \$350. What was Ukzten's GDP in 2010?
- A. \$1750
 - B. \$1850
 - C. \$1900
 - D. \$2050
10. The labor-force participation rate is computed as
- A. $(\text{Employed} / \text{Working Age Population}) \times 100$
 - B. $(\text{Employed} / \text{Labor Force}) \times 100$
 - C. $(\text{Labor Force} / \text{Working Age Population}) \times 100$
 - D. $(\text{Working Age Population} / \text{Labor Force}) \times 100$
11. If the reserve requirement is 25 percent and banks hold no excess reserves, an open market sale of \$400,000 of government securities by the Federal Reserve will
- A. Increase the money supply by up to \$1.6 million
 - B. Decrease the money supply by up to \$1.6 million
 - C. Increase the money supply by up to \$300,000
 - D. Increase the money supply by up to \$100,000

12. On a short-run Phillips curve, high rates of inflation coincide with
- A. High interest rates
 - B. Low interest rates
 - C. High unemployment rates
 - D. Low unemployment rates
13. Which of the following will most likely occur as a result of an increase in labor productivity in an economy?
- A. An increase in output and a decrease in inflation
 - B. An increase in interest rates and a decrease in investment
 - C. A decrease in both money demand and money supply
 - D. A decrease in exports and an increase in unemployment
14. Which of the following government outlays would be classified as a transfer payment?
- A. Payments of pension to retired public servants
 - B. Interest on government bonds
 - C. Social security payment
 - D. All of these
15. The multiplier measures the
- A. number of steps it takes to move from one equilibrium to another.
 - B. rise in saving resulting from a rise in income.
 - C. marginal propensity to invest.
 - D. rise in equilibrium GDP resulting from a one dollar rise in planned autonomous expenditures.

16. For any given year, the CPI is
- A. the price of the basket of goods and services in the given year divided by the price of the basket in the reference year, then multiplied by 100.
 - B. higher than the previous year.
 - C. the price of the basket of goods and services in the base year divided by the price of the basket in the given year, then multiplied by 100.
 - D. the price of the basket of goods and services in the current year divided by price of the basket in previous year, then multiplied by 100
17. The price index in 2011 is 120, and in 2012 the price index is 126. What is the inflation rate?
- A. 26 percent.
 - B. 6 percent.
 - C. 5 percent.
 - D. 10 percent
18. If Malaysia places a limit on the amount of steel that can be imported into the country, this would be an example of
- A. a tariff.
 - B. an export subsidy.
 - C. a quota.
 - D. dumping.
19. Suppose that the government proposes to follow a contractionary fiscal policy. This would cause the
- A. aggregate demand to shift rightward and raise the price level.
 - B. short run aggregate supply to shift rightward and lower the price level.
 - C. aggregate demand to shift leftward and lower the price level.
 - D. short run aggregate supply to shift leftward and raise the price level.

20. Rose loses her job and immediately begins looking for another, *ceteris paribus*,
- the unemployment rate is unaffected, and the labor-force participation rate increases.
 - the unemployment rate decreases, and the labor-force participation rate is unaffected.
 - the unemployment rate increases, and the labor-force participation rate decreases.
 - the unemployment rate increases, and the labor-force participation rate is unaffected

Section B: 40 Marks

This section consists of **THREE (3)** qualitative questions. Answer any **TWO (2)** questions. All questions carry equal marks.

Question 1

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

	(\$ 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

- Calculate the GDP at market price. Show all workings. (6 marks)
- Calculate the GDP at factor cost. Show all workings. (4 marks)
- Calculate the NDP at factor cost. Show all workings. (4 marks)

(b) Consider the following data for a nation:

9,000 people are employed
 1,000 are unemployed
 12,000 are adult population

Calculate the labour force, the unemployment rate and the working-age population rate.
 (6 marks)

Question 2

(a) Wonderland 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).
 (4 marks)

(ii) Complete the table below:
 (8 marks)

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

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

- (iv) Define multiplier (K). Determine simple model multiplier (K). (2 marks)
- (v) If national income at full employment is 1500, determine the deflationary gap. (2 marks)
- (vi) Determine the types of fiscal policies used to raise the output level of an economy. (2 marks)

Question 3

- (a) The following table shows a country's nominal GDP and price index for year 2001 and 2002.

Item	2001	2002
GDP (mil)	5,000	6,000
Price Index	100	102

- (i) What is the percentage change in real GDP? (4 marks)
- (ii) There are three firms in an economy, X, Y and Z. Firm X imports raw materials worth \$8,000 to be processed into intermediate goods. Firm X sells its products to Firm Y for \$6,000 and to Firm Z for \$5,000. Firm Y and Firm Z sell their goods in the local market for \$9,000 and \$7,000 respectively. Firm Y and Firm Z also export their products for \$4,000 and \$3,000 respectively. Calculate the economy's GDP. (4 marks)

(b) Assume an economy has the features as illustrated in the table below:

National Income (Y)	Taxes (T)	Consumption (C)
\$0	\$0	9,000
12,000	2,000	18,000
24,000	4,000	27,000
36,000	6,000	36,000
48,000	8,000	45,000

- (i) Derive the consumption function for this economy in terms of disposable income and national income. (4 marks)
- (ii) Derive the saving function for this economy in terms of disposable income and national income. (4 marks)
- (iii) If investment expenditure is \$8,000, and government expenditure is \$28,000, what is the equilibrium national income? (4 marks)

Section C: 20 Marks

There are **TWO (2)** essay questions. Answer any **ONE (1)** question. All questions carry equal marks.

Question 1

- (a) Distinguish between GDP and GNP. (4 marks)
- (b) Explain briefly the effect of each of the following events to Malaysia's Gross Domestic Product (GDP) and its components. (6 marks)
- (i) The Malaysian government purchases a French airplane.
 - (ii) Amin sells his car to his friend.
 - (iii) A firm purchases new locally made machineries for expansion.
- (c) Explain the various causes of inflation with the aid of diagrams. (10 marks)

Question 2

- (a) Why do people demand for money? (6 marks)
- (b) Outline any **THREE (3)** types of unemployment with remedies (9 marks)
- (d) Using the short-run Phillips curve, explain the relationship between unemployment and inflation. (5marks)

~THE END~

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