



FINAL
Examination Paper

(COVER PAGE)

Session : January 2014

Programme : Diploma in Business

Course : **ECO2104 : PRINCIPLES OF MACROECONOMICS**

Date of Examination : March 12, 2014

Time : 2:00pm – 4:00pm 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) : **Mr. Yee Aik Phoay**

Moderator : Associate Professor Dr. Evelyn S Devadason

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

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DIPLOMA IN BUSINESS PROGRAMME (DIB)
 DIPLOMA IN BUSINESS ADMINISTRATION PROGRAMME (DBADI)
 ECO 2104 / 2101: PRINCIPLES OF MACROECONOMICS
 FINAL EXAMINATION: JANUARY 2014 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 following table shows some important statistics of Brazil:

Nominal GDP		GDP Deflator (2008 = 100)	
2011	\$45.37 million	2011	150
2012	\$48.89 million	2012	185

Note: The data given are imaginary values; they are not the real.

- (a) (i) Using an example, briefly explain how Brazil obtains its GDP using the expenditure approach. (5 marks)
- (ii) Explain any **THREE (3)** uses of the GDP value to the Brazilian government. (6 marks)
- (b) Why is real GDP a better measure of a country's economic growth? Briefly explain your answer. (3 marks)
- (c) Determine the following.
- (i) Brazil's real GDP in year 2011. (2 marks)
- (ii) Brazil's real GDP in year 2012. (2 marks)
- (iii) Brazil's economic growth rate in year 2012. (1 mark)
- (d) Can we equate Brazil's economic growth rate in year 2012 as the growth rate of the country's standard of living in the same year? Provide **THREE (3)** reasons for your answer. (6 marks)

Question 2

- (a) Use Keynes' theory to explain the **THREE (3)** reasons why people demand money. (9 marks)
- (b) The following information relates to the money market.

Interest rate	Amount of money demanded	Amount of money supplied
2.40%	\$68 million	\$68 million
2.60%	\$65 million	\$68 million
2.80%	\$64 million	\$68 million

- (i) With reference to the information given, explain what happens to the **market equilibrium in the money market** if Central Bank reduces money supply to \$65 million. (6 marks)
- (iii) Using AD-AS diagram, illustrate **ONE (1)** economic problem that can be solved by reducing money supply. (6 marks)
- (iv) Besides taking charge of monetary policy, what other functions does Central Bank carry out? Briefly explain **TWO (2)** other functions. (4 marks)

Question 3

- (a) The following table shows the CPI of a Country Z from 2002 to 2004.

	2002	2003	2004
CPI	145.8	147.4	149.5

Jenny is currently working in Country Z as a nurse. Her nominal salary from 2002 to 2004 is shown below.

	2002	2003	2004
Nominal Salary	\$2,000	\$2,500	\$2,650

[Note: Leave answers in **TWO (2)** decimal points.]

- (i) Define Consumer Price Index (CPI). (2 marks)
- (ii) Is Jenny's real salary increasing yearly from 2002 to 2004? Support your answer with suitable calculations. (7 marks)

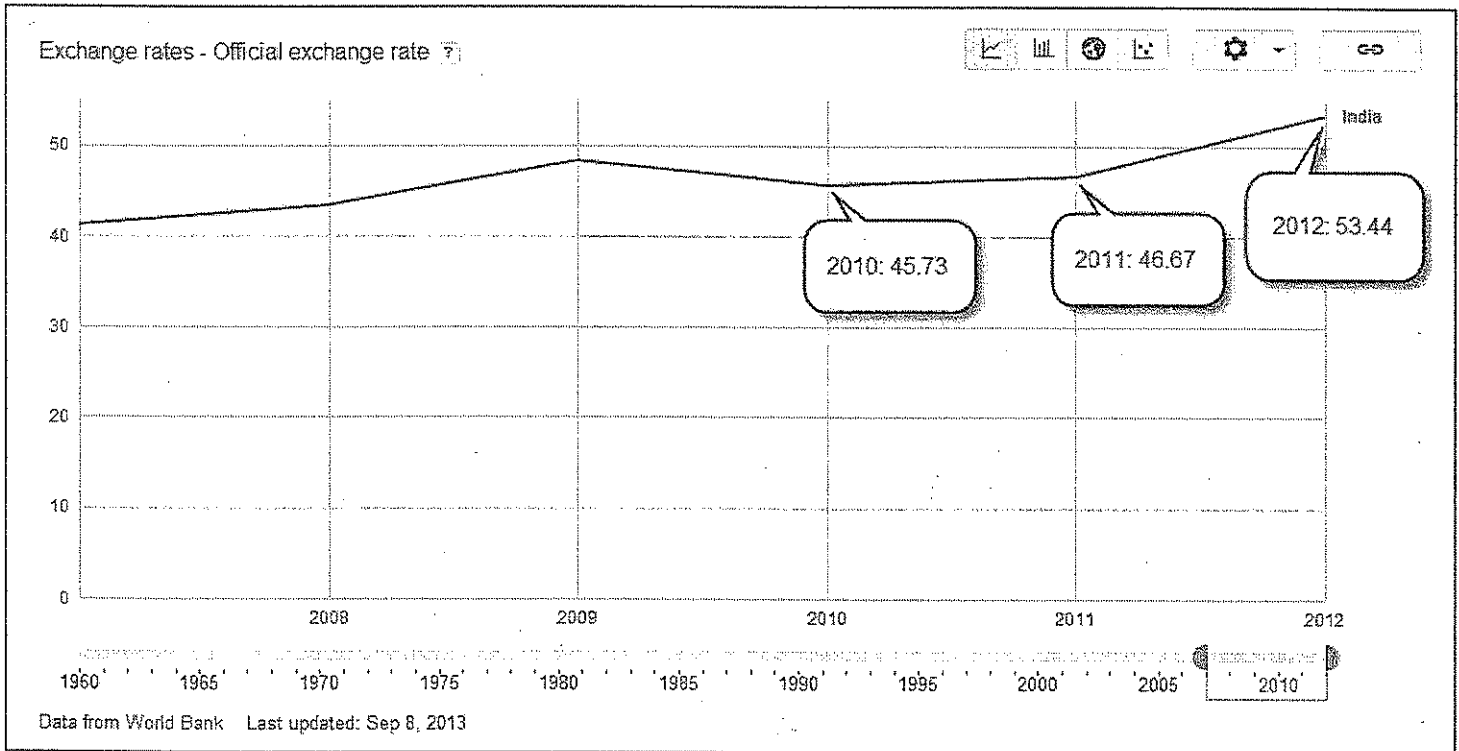
(b) Using AD-AS diagrams, explain **TWO (2)** main types of inflation. (10 marks)

(c) If unanticipated inflation occurs, who gains? Creditors or debtors? Explain. (6 marks)

Question 4

(a) Focus on the exchange rate between Indian Rupee and US Dollar from 2010 to 2012.

[Note: The data is quoted in Rupee per US dollar. For example, in 2010, the exchange rate is 45.73 Rupee per US dollar.]



(i) Referring to the diagram, is Rupee strengthening from 2010 to 2012? State your answer. (1 mark)

(ii) What caused the change to Indian's Rupee in part (i)? Explain **ONE (1)** demand-related factor and **ONE (1)** supply-related factor using suitable diagrams. (10 marks)

(b) Using examples, discuss the pros and cons of having free trade. (14 marks)

Question 5

- (a) The following information relates to a 3 sector economy.
- | | |
|--|------------------|
| Consumption function (before adjusting for taxes): | $C = 850 + 0.8Y$ |
| Investment expenditure: | $I = 30$ |
| Government expenditure: | $G = 75$ |
| Taxes: | $T = 50$ |
| Full employment GDP: | $Y_f = 5000$ |

[Note: All the values are in million dollars]

- (i) Determine the new consumption function after taking taxes into consideration. (2 marks)
- (ii) Find the economy's level of equilibrium national income. (3 marks)
- (iii) Comparing the full employment GDP and the answer that you got in part (ii), what economic situation is the economy facing? Briefly explain and illustrate the situation with an AE-output diagram. (6 marks)
- (iv) Which of the following has a greater impact on the equilibrium national income; an increase in investment to \$50 million or a decrease in taxes to \$30 million? Use multiplier concept to prove your answer. (6 marks)
- (b) (i) Briefly explain the following economics terms: upturn and recession. (4 marks)
- (ii) How does fiscal policy relate to the terms in part (b)(i)? (4 marks)

Question 6

- (a) (i) Explain the sub-components of a country's Current Account. (8 marks)
- (ii) Briefly explain **TWO (2)** reasons why high Current Account deficit is undesirable. (4 marks)
- (b) (i) Compare cyclical unemployment and frictional unemployment. Provide **TWO (2)** comparisons for your answer. (6 marks)
- (ii) If Europe imposes higher tariff on Malaysia's goods, how does this decision affect Malaysia's Current Account balance and cyclical unemployment? (7 marks)

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