



FINAL
Examination Paper

(COVER PAGE)

Session : January 2017

Programme : Diploma In Business (DIB)

Course : ECO2104/2105: Principles Of Macroeconomics

Date of Examination : 08 March, 2017 (Wednesday)

Time : 2:00pm – 4:00pm 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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This paper consists of 10 printed pages, including the cover page

DIPLOMA IN BUSINESS PROGRAMME (DIB)
ECO2104/2105: PRINCIPLES OF MACROECONOMIC
FINAL EXAMINATION: JANUARY 2017 SESSION

Instruction: This paper consists of **THREE (3) SECTIONS**. Answer **ALL** questions in **SECTION A**, **TWO (2)** questions from **SECTION B** and **ONE (1)** question from **SECTION C**

SECTION A: Answer **ALL** questions in the OMR sheet provided. **(40 marks)**

1. Which of the following is a central issue in macroeconomics?
 - A. The deregulation of the banking industry.
 - B. Inflation of prescription drug prices.
 - C. The effect of excise taxes on consumers' buying patterns.
 - D. None of the above.

2. Which of the following would most likely lead to a decrease in aggregate demand?
 - A. A decrease in taxes
 - B. A decrease in interest rates
 - C. An increase in household savings
 - D. An increase in household consumption

3. To boost economic growth the government is most likely to:
 - A. increase interest rates.
 - B. increase taxation rates.
 - C. provide incentives to invest.
 - D. provide incentives to save.

4. The output gap is:
 - A. the difference between this year's and last year's output.
 - B. the difference between this year's and next year's output.
 - C. the difference between actual and potential output.
 - D. the difference between actual and expected outputs.

5. Which of the following statements is true about the circular flow?
- A. Output is greater than income.
 - B. Income is more than expenditure.
 - C. Output is less than expenditure.
 - D. Output equals income equals expenditure.
6. A higher GDP per capita may not mean that the quality of life has really improved because
- A. it measures wealth, not income.
 - B. it measures gross domestic product.
 - C. it does not measure the quality of the items produced.
 - D. it is only measured every five years.
7. If the Keynesian consumption function is $C = 10 + 0.8Y_d$, if disposable income is RM1000, what is the amount of total consumption?
- A. RM0.80
 - B. RM800
 - C. RM810
 - D. RM0.81
8. Personal saving
- A. is that part of personal income that is not consumed.
 - B. equals income minus consumption.
 - C. both (A) and (B).
 - D. neither (A) nor (B).
9. If the marginal propensity to consume (MPC) is 0.75, a RM50 billion decrease in government spending would cause equilibrium output to
- A. increase by RM50 billion.
 - B. decrease by RM50 billion.
 - C. increase by RM200 billion.
 - D. decrease by RM200 billion.

10. If the marginal propensity to consume (MPC) is 0.90, a RM100 billion increase in planned investment expenditure, other things being equal, will cause an increase in equilibrium output of
- A. RM90 billion.
 - B. RM100 billion.
 - C. RM900 billion.
 - D. RM1000 billion.
11. If the nominal interest rate on checking account is 2% and the inflation rate is 3%, this means that the real interest rate is
- A. 5%.
 - B. 2%.
 - C. -1%.
 - D. 1%.
12. Demand-pull inflation may be caused by:
- A. an increase in costs.
 - B. a reduction in interest rates.
 - C. a reduction in government spending.
 - D. an outward shift in aggregate supply
13. Emira is a fresh university graduate who is actively searching for her first job. This type of unemployment is known as
- A. frictional.
 - B. cyclical.
 - C. structural.
 - D. turnover.
14. The Phillips Curve shows
- A. the negative relationship between inflation and the unemployment rate.
 - B. the positive relationship between inflation and the unemployment rate.
 - C. the positive relationship between inflation and the money supply.
 - D. the negative relationship between inflation and output.

15. To maximize worldwide gains from trade, a country should produce a good where it
- A. has the lowest opportunity cost of producing that good.
 - B. has the highest opportunity cost of producing that good.
 - C. can't produce that good using the fewest resources.
 - D. will produce that good using the most expensive resources.
16. The difference between Gross Domestic Product and Gross National Product can be reflected by
- A. payment of factor income to abroad.
 - B. receipt of factor income from abroad.
 - C. net factor income from abroad.
 - D. net National Product.
17. If the Central Bank sets 50% as the required reserve ratio, what is the country's money multiplier?
- A. 3
 - B. 2.5
 - C. 2
 - D. 3.2
18. "Government imposes restrictions on the quantities of imported products to help the local producers"
- This statement refers to
- A. import quota
 - B. export quota
 - C. export subsidy
 - D. voluntary export restriction
19. In the 3-sector economy, the injections within the circular flow are:-
- A. saving, and Investment
 - B. saving, and Exports
 - C. saving, and Government expenditure
 - D. investment, and Government expenditure

20. "Goods and services can be produced in the US, although the official production company (head office) is located in Malaysia".

The statement refers to

- A. Gross Domestic Product
- B. Net Domestic Product
- C. Net National Product
- D. Gross National Product

SECTION B: Answer any TWO (2) questions in the answer booklet provided. (40 marks)

Question 1

Suppose the following data shows the actual real GDP (Y) for an economy of a country. The components of aggregate expenditures are given as consumption (C), planned investment (I), government purchases (G) and net exports (NX).

Y (RM billion)	C (RM billion)	I (RM billion)	G (RM billion)	NX (RM billion)
0	800	1,000	1,400	-200
2,500	2,300	1,000	1,400	-200
5,000	3,800	1,000	1,400	-200
7,500	5,300	1,000	1,400	-200
10,000	6,800	1,000	1,400	-200

- (a) Based on these data, sketch the aggregate expenditures curve and the 45-degree line in a diagram. (5 marks)
- (b) Determine the equilibrium level of real GDP. (4 marks)
- (c) Suppose income at full employment (Y_{fe}) is RM 9000. What type of economic problem might the country be facing? How much of G need to be increased in order to close the gap? (5 marks)
- (d) Calculate the value of the multiplier. (2 marks)

- (e) With numerical example explain the relationship between MPC and Multiplier (K).
(4 marks)

Question 2

- (a) The following information relates to a 3 sector economy.

Consumption function (before adjusting for taxes):	$C = 850 + 0.8Y_d$
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 Aggregate Expenditure (AE) – Output (AS) 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(recovery) and recession.
(3 marks)

Question 3

- (a) Use the following table to calculate Canada's GDP in 2010.

(3 marks)

Items	Billions of dollars
Wages paid to labour	815
Consumption expenditure	885
Net domestic income at factor cost	1,210
Investment	304
Government expenditure	357
Net exports	32
Depreciation	202

- (b) The table below provides data on the economy of Maritime Republic that produces only fish and crabs. Calculate Maritime Republic's real GDP in 2012 assuming 2011 as the base year. What is the GDP deflator in 2012?

(3 marks)

Quantities	2011	2012
Fish	1,000 tonnes	1,100 tonnes
Crabs	500 tonnes	525 tonnes
Prices		
Fish	\$20 per tonne	\$30 per tonne
Crabs	\$10 per tonne	\$8 per tonne

- (c) In Nova Scotia in May 2011, the labour force was 501,700 and 458,100 people were employed. In June 2011, the labour force increased by 4,600 and the number employed increased by 9,300. Calculate the unemployment rate in May 2011 and in June 2011.

(5 marks)

(d) 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)

SECTION C: Answer any **ONE (1)** question in the answer booklet provided. **(20 marks)**

Question 1

- (a) Using AD-AS diagrams, explain **TWO (2)** main types of inflation. (10 marks)
- (b) Briefly explain the following types of unemployment and indicate the remedies for each one of them.
- (i) Frictional unemployment (5 marks)
- (ii) Structural unemployment (5 marks)

Question 2

- (a) Define the following:
- (i) Open market operation (2 marks)
 - (ii) Bank's reserve ratio (2 marks)
 - (iii) Discount rate (2 marks)
- (b) Explain how the central bank can make use of the above-mentioned tools to combat inflation in the domestic economy. (6 marks)
- (c) Draw graphs (using AD-AS method) and explain the following:
- (i) Recessionary expenditure gap. (4 marks)
 - (ii) Inflationary expenditure gap. (4 marks)