

FINAL
Examination Paper

(COVER PAGE)

Session : August 2015

Programme : Diploma In Business / Finance / Entrepreneurship (DIB/DIF/DENT)

Course : ECO2104: Principles Of Macroeconomics

Date of Examination : December 9, 2015

Time : 8.00am – 10.00am 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 9 printed pages, including the cover page

DIPLOMA IN BUSINESS/ FINANCE/ ENTREPRENEURSHIP (DIB/DIF/DENT)
ECO2104: PRINCIPLES OF MACROECONOMICS
FINAL EXAMINATION: AUGUST 2015 SESSION

SECTION A (40%)

Instructions: This section consists of 20 questions. Answer **ALL** questions in the OMR sheet provided below. **Each question carries 2 marks.**

1. Which of the following is included in the calculation of GDP South Korea?
 - I. A Samsung TV manufactured in Thailand
 - II. A final good produced by a Japanese firm in South Korea
 - III. The money spent by a South Korean to purchase a second hand I-phone
 - IV. The car tires purchased by the South Korean car manufacturers
 - A. I only.
 - B. I and III only.
 - C. II only.
 - D. I, II, III and IV.

2. The _____ is an example of a macroeconomics topic.
 - A. increase in price of sugar
 - B. economy's inflation rate
 - C. effect of lower Honda car prices on sales of Toyota cars
 - D. lower sales of Sony smartphones in Malaysia

3. Double counting occurs in the Malaysian national income accounting when _____.
 - A. Malaysian government uses income and expenditure method to find GDP.
 - B. transfer payments of Malaysian government are counted twice.
 - C. the final goods produced by a Malaysian is counted in GDP and GNP.
 - D. value of intermediate goods are counted in the measurement of GDP.

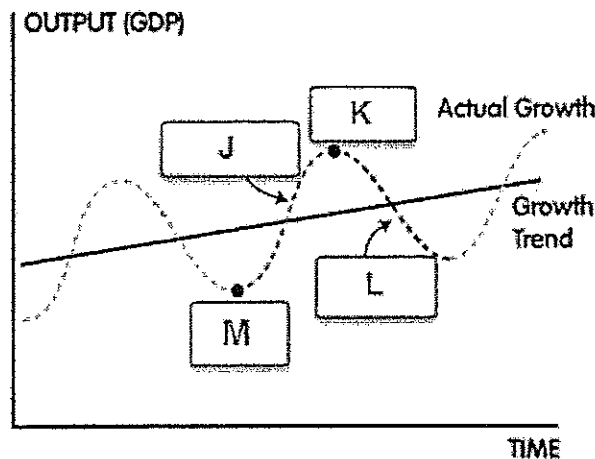
4. In a 2 sector economy, _____ are considered as the leakages from the economy.
 - A. savings
 - B. consumption expenditures
 - C. taxes
 - D. savings and taxes

5. The following table shows the consumption expenditures of Country Z.

Disposable income	Consumption Expenditures
1,000	800
2,000	800
3,000	800
4,000	800

Based on the values given, the average propensity to consume _____ as disposable income rises.

- A. remains the same and the value is greater than 1
 - B. decreases all the way and the value is smaller than 1
 - C. increases all the way and the value is smaller than 1
 - D. remains the same and the value is smaller than 1
6. If the level of equilibrium national income is lower than full employment, the economy is facing _____.
- A. inflationary gap
 - B. recessionary gap
 - C. cost-push inflation
 - D. structural unemployment
7. The following diagram show the different phases of a country's business cycle.



When a country is at phase L of the business cycle, the government can consider implementing _____ fiscal policy.

- A. expansionary
- B. contractionary
- C. neutral
- D. automatic

8. Which of the following statements is **TRUE** about spending multiplier?
- I. If a \$4.00 decrease in spending causes the equilibrium national income to decrease by \$8.00, the multiplier value is 2.
 - II. If a \$4.00 increase in spending causes the equilibrium national income to increase by \$2.00, the multiplier value is 2.
 - III. If the marginal propensity to consume is higher, the multiplier value will be bigger.
- A. I
 - B. I and II
 - C. I and III
 - D. III
9. During full employment, a country experiences _____.
- A. frictional unemployment only.
 - B. structural and frictional unemployment.
 - C. cyclical unemployment only.
 - D. structural, cyclical and frictional unemployment.
10. Jack has just graduated. Currently he is without a job and he plans to tour around the country. For the government, Jack is considered as _____.
- A. unemployed
 - B. discouraged workers
 - C. part of the labor force
 - D. part of the non-labor force
11. Both borrowers and lenders anticipate that inflation for the next year will be 4%. If inflation turns out to be 6%, _____.
- A. only borrowers will be worse off
 - B. both borrowers and lenders are worse off
 - C. only lenders will gain
 - D. borrowers gain but lenders are worse off
12. The CPI for year 2012 is 95. Which of the following statements is **TRUE**?
- A. In year 2012, the average prices of goods is 5% lower than the base year.
 - B. Compared to year 2011, there is a deflation in year 2012.
 - C. A consumer has to spend \$95 to purchase the basket of goods.
 - D. The inflation rate in year 2012 is 95%.

13. The demand for money as a medium of exchange is also known as _____.
- A. transactions demand for money
 - B. asset demand for money
 - C. precautionary demand for money
 - D. liquidity preference
14. If a surplus occurs in the money market, we can conclude that _____.
- A. the equilibrium interest rate is lower than the current interest rate
 - B. quantity of money demanded is greater than quantity supplied
 - C. interest rate will rise
 - D. the money supply curve is upward sloping

15.

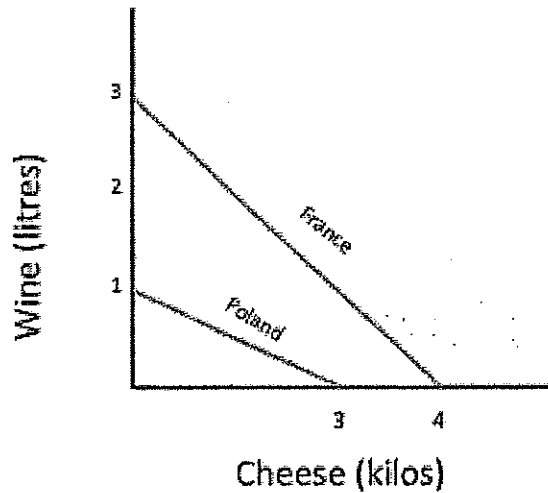
Balance Sheet of Commercial Bank A

Assets		Liabilities	
Reserves	\$5,000	Checkable Deposits	\$10,000
Loans	\$5,000		

Bank A has a policy of maintaining reserve ratio at 0.2. Based on this ratio, Bank A _____.

- A. has no excess reserves
 - B. has an excess reserves of \$3,000
 - C. can lend out \$5,000 more
 - D. must keep only \$3000 as required reserves
16. By increasing the required reserve ratio, the Central Bank is _____.
- A. expanding money supply
 - B. contracting money supply
 - C. shifting the money demand curve to the right
 - D. shifting the money demand curve to the left
17. Expansionary monetary policy will cause _____.
- A. the country's real GDP to rise but price level to fall
 - B. the country's real GDP and price level to fall
 - C. the country's real GDP and price level to rise
 - D. the country's real GDP to fall but price level to rise

18. The following diagrams illustrate the production possibilities of two countries; France and Poland.



Based on the diagrams above, _____.

- A. Poland has absolute advantage in wine and cheese production
 - B. Poland has no comparative advantage at all
 - C. France has comparative advantage in wine production
 - D. France has absolute advantage in wine production only
19. Referring to the same diagram for Question 18, both countries will trade if _____.
- A. 1 litre of wine is exchanged for 0.5 kiloes of cheese
 - B. 1 litre of wine is exchanged for 1 kilo of cheese
 - C. 1 litre of wine is exchanged for 2 kiloes of cheese
 - D. 1 litre of wine is exchanged for 5 kiloes of cheese
20. In the Balance of Payment, exports and imports are recorded in the country's _____.
- A. capital account
 - B. financial account
 - C. current account
 - D. net income account

SECTION B (40%)

Instructions: Answer any **TWO (2)** questions out of the three questions provided. **Each question carries 20 marks.**

1. Country Z is a 3-sector economy with the following aggregate expenditures functions:

$$C = \$500 + 0.9Y_d$$

$$T = \$200 \quad I = \$600 \quad G = \$400$$

- (a) Identify the leakages and the injections from the functions above. (3 marks)
- (b) Define equilibrium level of national income. (2 marks)
- (c) Using the information provided, determine Country Z's equilibrium level of national income. (4 marks)
- (d) Illustrate your answer to part (c) in a diagram. [Note: No explanations are needed] (4 marks)
- (e) Currently the government is considering two policies:
 Policy A: Raises its government expenditures by \$50
 Policy B: Cuts its taxes by \$50

Which policy has a bigger effect on the country's level of equilibrium national income? Use multiplier formula to support your answer.

(7 marks)

2. The following table illustrates the demand and supply for RM.

USD per RM	Amount of RM demanded	Amount of RM supplied
0.20	200,000	100,000
0.25	160,000	125,000
0.30	140,000	140,000
0.35	100,000	170,000

- (a) State any **THREE (3)** reasons why RM is demanded. (3 marks)
- (b) Based on the table provided, what is the equilibrium price and quantity in the market for RM? (2 marks)

- (c) How do the following factors lead to an increase in the supply of RM? Explain.
- (i) U.S interest rate (4 marks)
 - (ii) U.S inflation rate (4 marks)
 - (iii) Malaysian trade barriers (4 marks)
- (d) If the supply of RM were to increase by RM35, 000 at each exchange rate, what will be the new equilibrium price in the market for RM? Show how you derive the answer. (3 marks)

3. Country J is a simple economy. People in this country consume only 3 goods, non-organic vegetables, organic vegetables and clothing. In order to calculate the CPI, the government of country J uses a basket of goods that consists of 80 units of non-organic vegetables, 25 units of organic vegetables and 10 units of clothing. Base year has been set as Year 2000.

The prices of these goods from 2001 to 2003 are shown below:

	Non-organic vegetables	Organic vegetables	Clothing
2000 price per unit	\$1	\$2	\$20
2001 price per unit	\$2	\$2	\$18
2002 price per unit	\$3	\$4	\$20

- (a) Calculate the following:
- (i) the CPI for year 2001 and 2002 (5 marks)
 - (ii) the inflation rate for year 2001 and 2002 (4 marks)
- (b) Substitution effects may cause inflation rate to be inaccurate. Explain what this statement means by using information from year 2000 and 2001. (5 marks)
- (c) The following table shows the annual income of 3 individuals in Country J.

	Jim	Sue	Angeline
2000	\$50,000	\$40,000	\$80,000
2001	\$50,000	\$50,000	\$85,000

How does inflation in year 2001 affect the 3 individuals' real income? Did their real income increase, decrease or remain the same? Support your answer with some calculations.

(6 marks)

SECTION C (20%)

Instructions: Answer any **ONE (1)** question out of the two questions provided. **Each question carries 20 marks.**

1. (a) Explain how tariff reduces the imports of a country with the aid of a diagram. (8 marks)
- (b) Discuss **TWO (2) pros** and **TWO (2) cons** of having higher tariffs in a country. Support your discussions with real world examples. (12 marks)
2. (a) Using examples, explain structural and frictional unemployment. (8 marks)
- (b) Explain how open market operation is used to reduce the country's cyclical unemployment. [Note: Include the money market diagram and the AD-AS diagram in your answer.] (12 marks)

~THE END~
ECO2104(F)August2015

