FINAL
Examination Paper
(COVER PAGE)

Session : August 2014

Programme : Diploma in Business (DIB)
Diploma in Business Administration (DBADI)

Course : ECO2104/2101 : PRINCIPLES OF MACROECONOMICS

Date of Examination : December 8, 2014

Time : 11:00am – 1:00pm  
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) : Ms. Nageswari Parmasivam, Frederick Lo Vui Han.

Moderator : Associate Professor Dr. Evelyn S Devadason

This paper consists of 6 printed pages, including the cover page.
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

The following information relates to Country A:

\[ C = 400 + 0.75Y, \ I = 500, \ G = 200, \ T = 0 \]

Note:
- "C" represents consumption, "I" represents investment spending and "G" represents government spending.
- All the information are in dollars, $.
- Leave your answer in TWO (2) decimal points.

(a) Fill up the following table.

<table>
<thead>
<tr>
<th>Income (Y)</th>
<th>Consumption (C)</th>
<th>Average Propensity to Consume</th>
</tr>
</thead>
<tbody>
<tr>
<td>0</td>
<td></td>
<td></td>
</tr>
<tr>
<td>200</td>
<td>700</td>
<td>1.75</td>
</tr>
</tbody>
</table>

(4 marks)

(b) Briefly explain the term Marginal Propensity to Consume (MPC).

(2 marks)

(c) Using the "aggregate expenditure-output (AE-o)" method determine the equilibrium level of national income. Support your answer with calculations.

(4 marks)
(d) (i) Briefly explain the term “expansionary fiscal policy”. (5 marks)

(ii) The government has increased its spending by 300. What is the new equilibrium level of national income? Use the expenditure multiplier to derive your answer. (5 marks)

(iii) Briefly explain how the multiplier process works in an economy. (5 marks)

Question 2

(a) Using examples, explain any THREE (3) functions of money. (9 marks)

(b) How are the following tools used by the Central Bank to reduce aggregate demand?

(i) Open market Operations (3 marks)

(ii) Required reserve ratio (3 marks)

(iii) Discount Rate (3 marks)

(c) Using diagrams, explain the effects of Central Bank’s actions in part (b) (i) on the money market. (7 marks)

Question 3

(a) (i) Define Consumer Price Index (CPI). (3 marks)

(ii) Why is CPI an inaccurate measure for a family’s cost of living? Provide TWO (2) reasons for your answer. (7 marks)

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

(c) How does higher inflation affect a country’s trade surplus? (5 marks)
Question 4

(a) Explain any THREE (3) types of unemployment with examples. (9 marks)

(b) Table 1: Unemployment

<table>
<thead>
<tr>
<th></th>
<th>Country A</th>
<th>Country B</th>
</tr>
</thead>
<tbody>
<tr>
<td>Number of people employed</td>
<td>20 million</td>
<td>9 million</td>
</tr>
<tr>
<td>Number of people unemployed</td>
<td>1 million</td>
<td>2.5 million</td>
</tr>
<tr>
<td>Population aged 15-64</td>
<td>23.0 million</td>
<td>25.0 million</td>
</tr>
</tbody>
</table>

Note: leave your answers in TWO (2) decimal points.

(i) Refer to the information given in Table 1. Which country has higher labor force and higher unemployment rate? Support your answer with calculations. (6 marks)

(ii) Briefly explain the term “natural rate of unemployment”. (3 marks)

(iii) According to A.W Phillips, inflation and unemployment rate are negatively related. Is this statement true? Discuss this statement with the help of a diagram. (7 marks)

Question 5

(a) You are given the following information of U.S.

<table>
<thead>
<tr>
<th>Items</th>
<th>RM (million)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Compensation of employees</td>
<td>194.2</td>
</tr>
<tr>
<td>Personal Consumption Expenditure</td>
<td>219.1</td>
</tr>
<tr>
<td>U.S exports of goods and services</td>
<td>17.8</td>
</tr>
<tr>
<td>Capital Consumption</td>
<td>11.8</td>
</tr>
<tr>
<td>Government Consumption</td>
<td>59.4</td>
</tr>
<tr>
<td>Property Income to Abroad</td>
<td>14.4</td>
</tr>
<tr>
<td>Indirect Business Taxes</td>
<td>14.4</td>
</tr>
<tr>
<td>Net Private Domestic Investment</td>
<td>52.1</td>
</tr>
<tr>
<td>Transfer Payment</td>
<td>13.9</td>
</tr>
<tr>
<td>U.S. imports of goods and services</td>
<td>16.5</td>
</tr>
<tr>
<td>Personal Taxes</td>
<td>40.5</td>
</tr>
<tr>
<td>Net foreign factor income earned in U.S</td>
<td>2.2</td>
</tr>
</tbody>
</table>
Calculate the country's:

(i) Gross Domestic Product (GDP) at market price (3 marks)
(ii) Net Domestic Product (NDP) at market price (3 marks)
(iii) National Income (NI) (3 marks)

(b) Explain the differences between GDP and GNP by using examples. (6 marks)

(c) Should the following expenditures be recorded in GDP 2013? Briefly explain.

(i) In 2014, Mary asked her tailor to make a new dress for her birthday and she paid RM 200. (2 marks)

(ii) Danny paid RM 800 for a new smartphone in 2013. The phone was from last year's model and currently it is on sales. (2 marks)

(d) Describe THREE (3) factors that will increase the consumption expenditures in the country. (6 marks)

Question 6

(a) Briefly explain the components of Balance of Payment (BOP). (6 marks)

(b) The table shows the price indices for both exports and imports of Country A.

<table>
<thead>
<tr>
<th>Year</th>
<th>Export Price Index</th>
<th>Import Price Index</th>
</tr>
</thead>
<tbody>
<tr>
<td>2010</td>
<td>120</td>
<td>100</td>
</tr>
<tr>
<td>2011</td>
<td>125</td>
<td>135</td>
</tr>
</tbody>
</table>

(i) Define terms of trade. (2 marks)

(ii) Calculate the terms of trade for year 2010 and 2011. Leave your answers in TWO (2) decimal points. (2 marks)

(iii) From the calculations in part (ii), explain whether the terms of trade in each year is beneficial to country A. (5 marks)
(c) Describe THREE (3) types of trade barriers that can be used to protect local producers.

(10 marks)