FINAL
Examination Paper

(COVER PAGE)

Session : January 2013
Programme : Diploma in Business Administration Programme
Course : ECO2101 : Principles of Macroeconomics
Date of Examination : 4 March 2013
Time : 2p.m. – 4p.m. 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) : Sara Seah Peng Teng
Moderator : Yee Aik Phoay

This paper consists of 4 printed pages, including the cover page.
INTI INTERNATIONAL COLLEGE PENANG

DIPLOMA IN BUSINESS ADMINISTRATION (DBADI)
ECO 2101: PRINCIPLES OF MACROECONOMICS
FINAL EXAMINATION : JANUARY 2013 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) Explain what is meant by “the economy is in equilibrium”. (3 marks)

(b) You’ve given the following information about Country A:

<table>
<thead>
<tr>
<th>Disposable Income (Yd)</th>
<th>0</th>
<th>100</th>
<th>200</th>
<th>300</th>
</tr>
</thead>
<tbody>
<tr>
<td>Consumption (C)</td>
<td>100</td>
<td>175</td>
<td>250</td>
<td>325</td>
</tr>
</tbody>
</table>

Investment : I = 200
Government spending : G = 100

(i) Find MPC, autonomous consumption and derive the consumption function (in terms of disposable income). (5 marks)

(ii) Find MPS and derive the savings function (in terms of disposable income). (4 marks)

(iii) Determine the equilibrium level of national income using both “income-expenditure” and “injection-leakage” methods. Show all working. (8 marks)

(iv) Calculate the size of the multiplier for the economy. Show all working. (2 marks)

(v) Find new equilibrium national income if the government decides to increase its expenditure to 110. Use the expenditure multiplier to derive your answer. Show all working. (3 marks)

Question 2

(a) Explain:

(i) The mechanism by which credit is created with the aid of numerical examples. (9 marks)
(ii) The effect of credit creation on the money supply. (4 marks)

(iii) Two factors causing the actual expansion of the money supply to differ from that given by the multiplier. (4 marks)

(b) Distinguish between M1 and M2 money. (4 marks)

(c) Distinguish between commodity money and fiat money. (4 marks)

Question 3

(a) Explain the various causes of inflation with the aid of diagrams. (10 marks)

(b) Outline THREE undesirable consequences of inflation. (9 marks)

(c) Explain how a contractionary monetary policy brings about price stability. (6 marks)

Question 4

(a) Consider the following data for a nation:

<p>| | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Number of people employed</td>
<td>10.5</td>
</tr>
<tr>
<td>Number of people unemployed</td>
<td>0.5</td>
</tr>
<tr>
<td>Population ages 15-64</td>
<td>20.0</td>
</tr>
<tr>
<td>Total population</td>
<td>32.0</td>
</tr>
</tbody>
</table>

Calculate the labour force, labour force participation rate and the unemployment rate. (6 marks)

(b) Explain the THREE primary types of unemployment. Provide an example for each. (12 marks)

(c) Discuss the fiscal policies that the government can use to meet the economic objective of low unemployment of the nation. (7 marks)

Question 5

(a) Outline the THREE components of investment. (6 marks)
(b) Given the following information for an economy in million units of money.

<table>
<thead>
<tr>
<th></th>
<th>($)</th>
</tr>
</thead>
<tbody>
<tr>
<td>GDP at market price</td>
<td>3 000</td>
</tr>
<tr>
<td>Indirect business taxes</td>
<td>200</td>
</tr>
<tr>
<td>Subsidies</td>
<td>100</td>
</tr>
<tr>
<td>Capital consumption allowance</td>
<td>300</td>
</tr>
<tr>
<td>Factor payments to the rest of</td>
<td>40</td>
</tr>
<tr>
<td>the world</td>
<td></td>
</tr>
<tr>
<td>Factor payments from the rest</td>
<td>50</td>
</tr>
<tr>
<td>of the world</td>
<td></td>
</tr>
</tbody>
</table>

(c) From the above data, find the following (show all workings):

(i) Net domestic product at market price

   (2 marks)

(ii) Net national product at market price

   (2 marks)

(iii) Net national product at factor cost

   (2 marks)

(d) Define the term Gross Domestic Product (GDP). State and explain THREE reasons why GDP is not a good measure of welfare.

   (13 marks)

**Question 6**

(a) Explain any FOUR arguments in favour of trade barriers.

   (12 marks)

(b) With the aid of diagrams, explain the economic effect of tariffs.

   (5 marks)

(c) Imagine that two countries, Country A and Country B, can produce just two goods, apple and orange. Assume that for a given amount of resources, the output of Country A and Country B is as follows:

<table>
<thead>
<tr>
<th></th>
<th>Apple</th>
<th>Orange</th>
</tr>
</thead>
<tbody>
<tr>
<td>Country A</td>
<td>200</td>
<td>100</td>
</tr>
<tr>
<td>Country B</td>
<td>40</td>
<td>80</td>
</tr>
</tbody>
</table>

(i) For each commodity, identify the country that has an absolute advantage. Explain your answer.

   (3 marks)

(ii) For each commodity, identify the country that has comparative advantage. Explain your answer.

   (5 marks)

---THE END---

ECO2101(F) Jan13/Sara210113