



**UNIVERSITI KUALA LUMPUR
BUSINESS SCHOOL**

**FINAL EXAMINATION
MARCH 2024 SEMESTER**

COURSE CODE	: EGB10503
COURSE NAME	: INTERMEDIATE MACROECONOMICS
PROGRAMME NAME	: BACHELOR OF SCIENCE (HONS) IN ANALYTICAL ECONOMICS
DATE	: 3 JULY 2024
TIME	: 9.00 AM – 12.00 PM
DURATION	: 3 HOURS

INSTRUCTIONS TO CANDIDATES

1. Please **CAREFULLY** read the instructions given in the question paper.
2. This question paper has information printed on both sides of the paper.
3. This question paper consists of **TWO (2)** sections; **Section A** and **Section B**.
4. Answer **ALL** questions from **Section A** and **Section B**.
5. Please write your answers on the answer booklet provided.
6. All questions must be answered in **English** (any other language is not allowed).
7. This question paper must not be removed from the examination hall.

THERE ARE FOUR (4) PAGES OF QUESTIONS, EXCLUDING THIS PAGE.

SECTION A (Total: 60 marks)**INSTRUCTION: Answer ALL questions.****Please use the answer booklet provided.****Question 1**

Consider an economy that produces 3 goods. Unless otherwise stated, 2017 is the base year.

Product	Quantity		Price	
	2017	2018	2017	2018
A	5	7	\$30	\$40
B	6	4	\$30	\$40
C	8	12	\$15	\$20

- (a) Calculate nominal and real GDP for 2017 and 2018. What is the GDP deflator in 2017 and 2018? What is the corresponding annual growth rate of the economy and the annual inflation rate?
(12 marks)
- (b) Assume that the typical consumer's basket of goods is given by the average of the quantities between 2017 and 2018. Calculate the CPI for 2017 and 2018, as well as the annual CPI inflation rate.
(12 marks)
- (c) The price of good B increased sharply between 2017 and 2018. At the same time, the quantity of good B dropped. What is a possible explanation for this relationship? Which measure of inflation, the GDP deflator or the CPI, is better suited to account for this phenomenon? Explain.
(4 marks)

Question 2

Consider effect(s) of when the government provides subsidies for investment, such as investment tax credit, which often applies to certain types of investments. Suppose there are two types of investment in the economy: business investment and residential investment. And suppose that the government institutes an investment tax credit only for business investment. Answer the following questions with supports of relevant diagrams.

- (a) How does this policy affect the demand curve for business investment? The demand curve for residential investment? (4 marks)
- (b) Draw the economy's supply and demand for loanable funds. How does this policy affect the supply and demand for loanable funds? What happens to the equilibrium interest rate? (8 marks)
- (c) Compare the old and the new equilibria. How does this policy affect the total quantity of investment? The quantity of business investment? The quantity of residential investment? (4 marks)

Question 3

Consider the following short-run, open-economy model of the economy.

Goods Market	Money Market
$C = 100 + 0.6(Y - T)$ $I = 300 - 10r$; $NX = -40$ $G = 100$; $T = 100$	$M = 4000$ $P = 10$ $L(Y, r) = 0.6Y - 10r$

- (a) Graph the IS and LM equations and then find the equilibrium values of r and Y . (8 marks)
- (b) What is the value of the Keynesian-cross tax multiplier? Policymakers wish to shift the IS curve to the left by 150. How much do they need to raise taxes to do so? What are the resulting equilibrium values of r and Y ?

(4 marks)

- (c) At equilibrium in part (a), what is the value of national saving? Investment? Net capital outflows? Is the foreign exchange market in equilibrium? If the net export function is $NX = -10 - 20e$, what is the equilibrium real exchange rate, e ? In words, how do you interpret this exchange rate?

(8 marks)

SECTION B (Total: 40 marks)**INSTRUCTION: Answer ALL Questions.****Please use the answer booklet provided.****Question 1**

Suppose an economy is initially in long-run equilibrium with full employment of resources. Analyse the short-run and long-run effects of each of the following events on key macroeconomic variables, assuming the economy operates under the assumptions of the AD-AS model.

- a) A technological advancement that improves productivity across all sectors of the economy.
- b) A decrease in consumer confidence due to an unexpected increase in geopolitical tensions.

For each event, explain the short-run adjustments in output, employment, price level, and the shape of the AD-AS curves. Then, discuss the long-run effects, including the adjustments of output, employment, and price level back to potential output and the natural rate of unemployment. Provide graphical representations where appropriate and ensure to discuss any assumptions made in your analysis.

(20 marks)

Question 2

Consider an economy experiencing a slowdown in economic growth due to a decline in business confidence. Using the IS-LM model, analyse the short-run and long-run effects of the following events on key macroeconomic variables:

- a) The central bank implements an expansionary monetary policy by lowering the interest rates.
- b) The government increases its spending on public infrastructure projects.

For each event, explain the short-run adjustments in output, interest rates, and the price level. Then, discuss the long-run effects, including the adjustments of output, interest rates, and the price level back to their equilibrium levels. Provide appropriate graphical representations and discuss the relevant assumptions made in your analysis.

(20 marks)

END OF EXAMINATION PAPER