



**UNIVERSITI KUALA LUMPUR
BUSINESS SCHOOL**

**FINAL EXAMINATION
OCTOBER 2024 SEMESTER**

COURSE CODE : EIB11703
COURSE NAME : PRINCIPLES OF MACROECONOMICS
PROGRAMME NAME : BACHELOR IN ACCOUNTING (HONS)
DATE : 7 FEBRUARY 2025
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 **FIVE (5) Structural Questions**.
4. Answer **ALL** questions.
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 FIVE (5) PAGES OF QUESTIONS, EXCLUDING THIS PAGE.

SECTION A (Total: 100 marks)

INSTRUCTION: Answer ALL questions. Please use the answer booklet provided.

Question 1

The following functions represent consumption and investment functions for a closed economy with no government spending and taxation.

Consumption function	$C = 1100 + 0.8Y_d$
Investment function	$I = 700$
Government Expenditure	$G = \text{RM}900 \text{ million}$
Taxes	$T = \text{RM}200 \text{ million}$

- (a) Find the equilibrium level of income for the economy using leakage-injection approach. (6 marks)
- (b) If the full employment income is RM12,000, what economic problem is the country facing? Explain by using a diagram. (6 marks)
- (c) Suggest how fiscal policy will be implemented to overcome this economic problem. (4 marks)
- (d) By using aggregate demand and aggregate supply curve, show the effects of the implementation of fiscal policy. (4 marks)

Question 2

Bank Negara Malaysia has set the reserve requirement ratio at 10%. ABC Bank receives an initial deposit of RM50,000 from a customer.

- (a) Determine money multiplier based on the financial situation above. (3 marks)
- (b) Calculate the amount of new loans ABC Bank can be generated by the end of the financial period. (3 marks)
- (c) Calculate total reserves that can be generated by the end of the financial period. (3 marks)
- (d) Calculate the total potential increase in the money supply resulting from the initial deposit of RM50,000, assuming all loans are fully redeposited into the banking system and there are no leakages. (3 marks)
- (e) Explain how the reserve requirement ratio affects the money creation process in the banking system. (4 marks)
- (f) Discuss two (2) other tools that Bank Negara Malaysia can use to control the money supply and how these other tools impact the economy. (4 marks)

Question 3

The money market is crucial in determining the equilibrium interest rate in an economy.

- (a) List three (3) motives for holding money. (6 marks)
- (b) By using diagrams, explain why the money demand curve is downward sloping. (5 marks)
- (c) Explain how the central bank can influence the interest rate through expansionary and contractionary monetary policies (9 marks)

Question 4

Table 1 shows the list of prices and quantities of goods for the year 2035, 2036 and 2037. Assumed that year of 2035 is the base year

Table 1: List of Price and Quantities of Goods for the year 2035 until 2037

Good	Quantity Consumed (unit)	Prices (RM)		
		2035	2036	2037
A	200	1.50	1.80	2.25
B	250	2.00	2.40	2.75
C	95	3.00	3.25	3.25

- (a) Define Consumers Price Index (CPI) and the function of it. (4 marks)
- (b) Based on information in Table 1 above, calculate the cost basket of goods for the years 2035, 2036, and 2037. (6 marks)
- (c) Compute the Consumer Price Index (CPI) for each year. (6 marks)
- (d) Calculate the inflation rate in 2036 and 2037 (4 marks)

Question 5

Suppose that Country M and P both produce gauzes and potteries, which sell for the same price in both countries. Table 2 below shows the combinations of two goods that each country can produce daily, using the same amount of capital and labor.

Table 2: Combinations of Gauze and Pottery for Country P and M

Country M		Country P	
Gauze	Pottery	Gauze	Pottery
0	15	0	60
20	10	20	20
40	5	10	20
60	0	60	0

- (a) Determine which country will have the absolute advantage in producing gauze and pottery. (6 marks)
- (b) Suppose that country M is currently producing 30-million-unit gauze and 15 million-unit potteries, while country P is currently producing 10-million-unit gauze and 40 million-unit of potteries. By using tables, demonstrate how both countries can enjoy a comparative advantage if they specialize based on opportunity cost and they trade. Assume both countries retain their domestic consumption before trade and will export the rest of the production to their trade partner. (14 marks)

END OF EXAMINATION PAPER