CONFIDENTIAL

UNIVERSITI KUALA LUMPUR
BUSINESS SCHOOL

FINAL EXAMINATION
MARCH 2025 SEMESTER

COURSE CODE	:	EGB10503
COURSE NAME	:	INTERMEDIATE MACROECONOMICS
PROGRAMME NAME	:	BACHELOR OF SCIENCE (HONOURS) IN ANALYTICAL ECONOMICS
DATE	:	30 JUNE 2025
TIME	:	2.00 PM – 5.00 PM
DURATION	:	3 HOURS

INSTRUCTIONS TO CANDIDATES

1. **Please CAREFULLY read the instructions given on this question paper.**
2. **This question paper has information printed on both sides of the paper.**
3. This examination comprises **TWO (2)** sections
4. Answer **ALL** questions in **Section A** and choose **ONLY TWO (2)** questions in **Section B.**
5. Please write your answers in 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 TWELVE (12) PAGES OF QUESTIONS, INCLUDING THIS PAGE.

SECTION A (Total: 30 marks)

INSTRUCTION: This section comprises 30 multiple choice questions and each question is worth 1 mark. You are required to answer **ALL** questions in this section in the answer booklet provided.

1. Which of the following answers below is **CORRECT** on the contention between the classical economic model in terms of money wage?
   A. Money wage is conceivably fixed in the long run under the classical economic model
   B. The classical economic model depends on the money wage structure as opposed to the real wage structure
   C. The changes in the levels of money wage results depends on the long-run aggregate supply under the classical model
   D. The variability of the levels of money wage in the long-run is due to the active interaction in the labour market

2. In the long-run, the monetarist school of thought proposes that ______________.
   A. the real sector of the economy is determined by the nominal variables in the economy
   B. the nominal sector of the economy is determined by the real variables in the economy
   C. the real variables in the economy are influencing the real sector in the economy
   D. the real variables in the economy are influencing the nominal sector in the economy

3. If the marginal output per worker decreases, the production function could be deduced to be ___________.
   A. experiencing a rapid growth for every worker hired
   B. still increasing but at which the rate of increasing is decreasing
   C. reaching its peak at which any worker added brings no added output from the last worker employed
   D. going for a constant return to output per worker employed

4. Assume that for a production function to have a fixed level of capital employed, one of the ways that the production of output to increase further with the same level of employment of labour is when ____________.
   A. the marginal income tax rate is reduced
   B. the lump sum tax is introduced in the nation
   C. the marginal income tax rate is elevated
   D. the lump sum tax is abolished in the nation

5. Which of the following answers is **TRUE** in regards to the shape of labour supply curve?
   A. It is upward sloping because individuals sacrifice their leisure hours to trade with a considerable amount of income with a time limitation
   B. It is upward sloping because they demand for more wage as there is higher price of goods as more workers employed
   C. It is upward sloping because people have unlimited hours to supply in the labour market in a particular period.
   D. No true answer

6. Suppose that the wealth of an individual i under Keynesian theory is $Wh_i = M_i^1 + M_i^2 + B_i$, if the current market interest rate is higher than the individual's perceived interest rate, what could the composition of wealth for individual i be?

	M_i^1	M_i^2	B_i
A.	>0	0	0
B.	0	>0	>0
C.	>0	>0	>0
D.	>0	0	>0

7. Labour supply function has a(n) (i) __________ sloping curve and consists of (ii) __________ and (iii) __________ variables.

	(i)	(ii)	(iii)
A.	upward	wage	price
B.	downward	wage	price
C.	upward	employment	wage
D.	downward	employment	wage

8. The long run aggregate supply curve under the classical approach is ____________.
   A. horizontal due to the constant price of output in the economy
   B. vertical due to the adjusted wage rate to the price level in the economy
   C. horizontal due to the adjusted wage rate to the price level in the economy
   D. vertical due to the constant price of output in the economy

9. What could be the prediction to the economy if a nation finds out that its annual actual investment expenditure is lower than its annual targeted expenditure?
   A. The economy is doing very well
   B. The economy is headed to further expansion in the next business year
   C. The economy is headed to a probable recession in the following year
   D. No change in the economic performance for the country

10. Which of the following equations is the savings function under the Keynesian model?
   A. $a + bY_d$
   B. $-a + Y_d(1 - b)$
   C. $\left(\frac{1}{1-b}\right) a + bT + I + G$
   D. $\left(\frac{1}{1-b}\right) + \left(\frac{-b}{1-b}\right)$

11. Which of the following statements is **TRUE**?
   A. Under the classical approach, a change in tax rate will not result in change in output level in the economy
   B. The sum of spending multiplier and tax multiplier is zero
   C. Investment can be regarded as a leakage and tax can be regarded as an injection in the circular flow model
   D. Investment and government expenditures have identical multiplier under the Keynesian model

12. Other than increasing the tax revenue, government may also opt to finance its deficit by borrowing in the market for loanable funds. However, one of the consequences of federal borrowing would be ___________.
   A. economic instability as the government does not know how to manage public expenditure
   B. an increase in market interest rate as the federal policy has increased the supply of loanable funds
   C. an increase in interest rate that is driven by an increase in demand for loanable funds
   D. reduction in savings by households because those unused disposable income has been taken away by the government

13. If the market interest rate falls due to reduction in the demand for loanable funds, the most probable effect would be ___________.
   A. an increase in consumption
   B. a decrease in consumption
   C. an increase in federal borrowing
   D. a decrease in household borrowing

14. Consider that a marginal product of labour (MPN) with the function of $\frac{\alpha w}{\beta P}$, and $\alpha < \beta$. What is the **CORRECT** conclusion to draw from this function?
   A. The workers in this labour market are underproductive
   B. The price of the output sold in the economy is undervalued
   C. The workers in this labour market are overproductive
   D. The price of the output sold in the economy is overvalued

15. Under the aspect of deriving long-run aggregate supply, if the price-level in the economy falls by $x\%$, what would be the response that will be appropriate according to the Classical approach?
   A. The employment level must increase by $x\%$
   B. The employment level must fall by $x\%$
   C. The wage rate must increase by $x\%$
   D. The wage rate must decrease by $x\%$

16. Suppose that a bond with a face value worth $\$X$ and it is currently selling at premium. This means that ____________.

    A. the bond's coupon rate is higher than the current market interest rate
    B. the price of the bond is lower than its face value
    C. the bond's coupon rate is lower than the current market interest rate
    D. the price of the bond is equal to its face value

17. Suppose that the money market equilibrium and a bond's coupon rate is at r_0. If r falls, what will happen in the money market and bond pricing structure?

    A. The bond price will be valued at discount while there is an increase in the demand for money
    B. The bond price will be valued at premium while there is an increase in the demand for money
    C. The bond price will be valued at discount while there is a decrease in the demand for money
    D. No change in both bond price and money market

18. Which of the following is **TRUE** in regards to an increase in market interest rate?

    A. The lender of the loan bears income losses while the borrower enjoys reduction in the cost of borrowing
    B. The lender of the loan will enjoy higher income and the borrower will have an increased cost of borowing
    C. Financial institutions will provide more investment to private investors to boost for more income
    D. The federal government will choose to undertake loans from financial institutions instead of raising tax collections in financing its budget deficit

19. Which of the following is **TRUE** regarding money market in the economy?

    A. Lower interest rate results in higher demand for money
    B. Higher interest rate results in lower demand for money
    C. Money market is determined by the interest rate
    D. The money supply curve is upward sloping

20. Income level is one of the variables for money demand in such a way that __________.
    A. the higher the income, the lower the demand for money
    B. the lower the income, the higher the demand for money
    C. it has an inverse relationship with the money demand
    D. it has a direct relationship with the money demand

21. Any movement in the same LM curve is indicated by ____________.
    A. the movement in the money demand curve
    B. the movement of the money supply curve
    C. a change in the bond price
    D. a change in the income level

22. The LM curve is basically showing that ___________.
    A. an increase in the interest rate is decreasing the income level
    B. an increase in interest rate is also increasing the income level
    C. a decrease in the money demand is increasing the income level
    D. a decrease in the interest rate is increasing the income level

23. If the money demand curve of a country is flat, the LM curve is then going to be __________.
    A. horizontal
    B. vertical
    C. steep
    D. flat

24. An LM curve will **only** shift upward if ____________.
    A. interest rate is constant while income level is variable
    B. both interest rate and income level are constant
    C. interest rate is variable while income level is constant
    D. both interest rate and income level are variable

25. The IS curve shows the relationship of the following answers **EXCEPT**:
    A. Investment
    B. Savings
    C. Interest rate
    D. Money demand

26. If there is a decrease in government spending, _______________.
    A. the IS curve is going to shift to the left along with the leftward shift of the investment-government schedule
    B. the investment-government spending is the only schedule that is affected by this reduction
    C. the IS curve is going to shift to the right along with the rightward shift of the investment-government schedule
    D. the IS curve is the only schedule that is affected by this type of spending cut

27. The Keynesian aggregate supply curve is achieved by ___________.
    A. the combination of changing LM curves while IS curve retains as constant
    B. having the LM curve as a constant while there are variable IS curves
    C. the change in the price-level and wage structure in the labour market
    D. the influence of investment demand and government spending

28. Which of the following slope of aggregate supply curve under the Keynesian model will provide the best economic outcome to a nation when there is a shift in aggregate demand?
    A. Vertical
    B. Horizontal
    C. Steep
    D. Flat

29. Which of the following is **TRUE** in terms of flexibility of wage under the Keynesian model?
    A. Flexible wage model results in a vertical aggregate supply curve and fixed wage model causes for a horizontal aggregate supply curve
    B. Fixed wage model results in a vertical aggregate supply curve and flexible wage model causes for a horizontal aggregate supply curve
    C. Flexible wage model results in a flatter aggregate supply curve as opposed to fixed wage model
    D. Flexible wage model results in a steeper aggregate supply curve as opposed to fixed wage model

30. If the expected price-level (p^e) in the future decreases, ________________.

A. p^e curve shifts to the left, causing the aggregate demand curve to shift to the right

B. p^e curve shifts to the right, causing the aggregate supply to shift to the left

C. p^e curve shifts to the right, causing the aggregate demand to shift to the left

D. p^e curve shifts to the left, causing the aggregate supply curve to shift to the right

SECTION B (Total: 70 marks)

There are **THREE (3)** questions in this section, you are required to answer **ONLY TWO (2)**. Your answer must be written in the answer boookIet provided. Each question is worth 35 marks.

Question 1

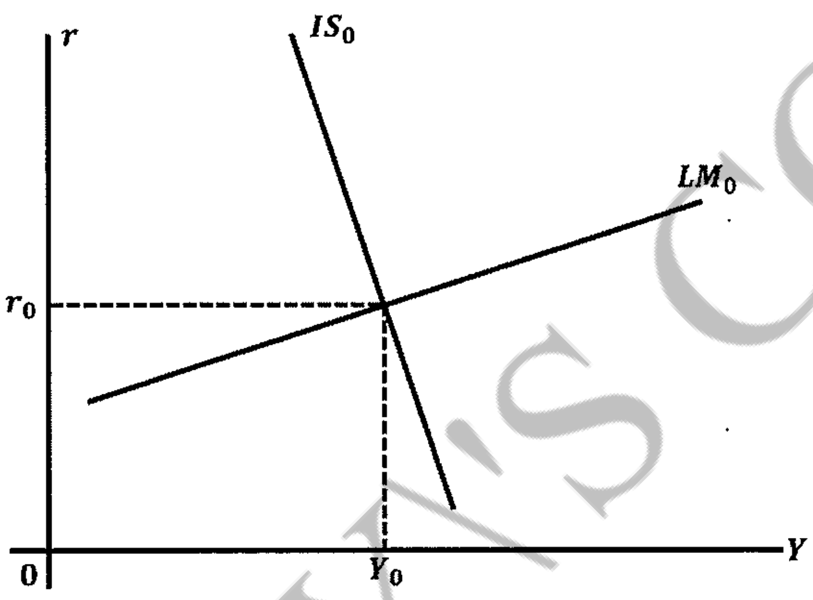

Figure 1

Figure 1 above depicts the IS-LM schedule that shows the relationship between the market interest rate and the national income level for a particular country. The following questions rely on this figure.

(a) Analyse the equilibrium between IS_0 and LM_0 curves. You are **NOT** required to illustrate anything in answering this question.

(7 marks)

(b) By paying attention to the slope of both curves, analyse this schedule with appropriate **illustrations** under which:

(i) on how IS_0 is derived. (8 marks)

(ii) on how LM_0 is derived. (8 marks)

(c) Suppose that the country is undergoing a moderately persistent inflation, evaluate the effects of both fiscal and monetary policies for this country with appropriate illustrations.

(12 marks)

Question 2

(a) Discuss the concept of natural rate theory of unemployment along with relevant diagram(s).

(7 marks)

(b) Under simple Keynesian model, the sum of spending and tax multipliers is equal to 1, and this property is called as budget balanced-ness of the government. Proof this property algebraically along with appropriate explanation. (*Hint: Begin your answer with consumption function*)

(5 marks)

(c) Illustrate the Keynesian aggregate demand schedule along with proper analysis.

(7 marks)

(d) Refer to figure 2 below, consider that the initial equilibrium in this schedule is at point (Y_0, P_0) and the new intersection is at point (Y_1, P_1). Examine the technicalities of this shift under the context of the Classical approach along with relevant illustrations.

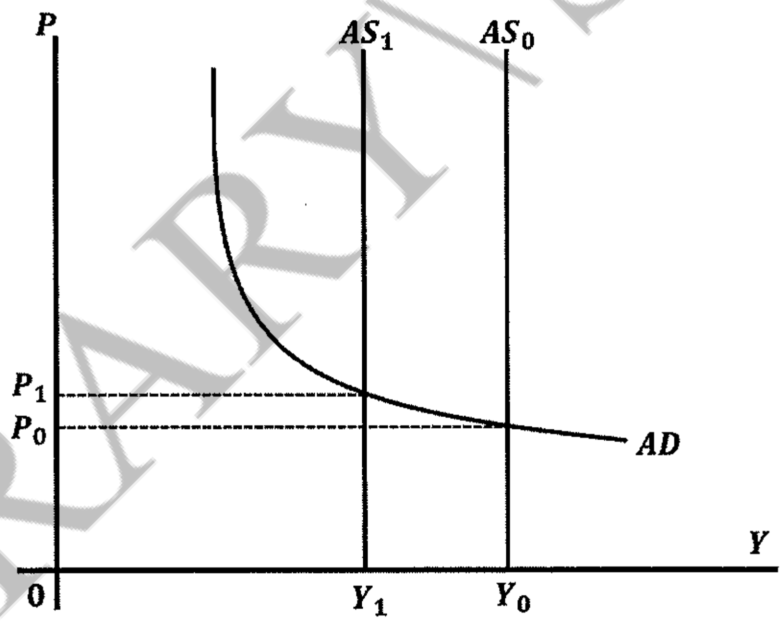

Figure 2

(16 marks)

Question 3

In the derivation of long-run aggregate supply curve, the framework under Classical economic theories centralised on the assumption of the property of full information on economic condition as the basis for perfect adjustment in terms of real-wage and constant full employment level. However, John Maynard Keynes relaxed this assumption and provided two ways on how this aggregate supply curve can be derived: first is when the wage rate is fixed, second is when it is variable.

Differentiate on ways how aggregate supply curve is derived under the classical approach as well as under the Keynesian approach for when the wage is **variable** only. You are required to provide **ALL** diagrams that are relevant to this answer.

(35 marks)

END OF EXAMINATION PAPER