



UNIVERSITI KUALA LUMPUR  
BUSINESS SCHOOL

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**FINAL EXAMINATION**  
**OCTOBER 2025 SEMESTER**

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COURSE CODE : EAB21703  
COURSE TITLE : PRINCIPLES OF MACROECONOMICS  
PROGRAMME NAME : BACHELOR OF SCIENCE (HONS) IN ANALYTICAL ECONOMICS  
DATE : 28 JANUARY 2026  
TIME : 9:00AM - 12:00PM  
DURATION : 3 HOURS

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**INSTRUCTIONS TO CANDIDATES**

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1. Please read the instructions given in the question paper CAREFULLY.
2. This question paper is printed on both sides of the paper.
3. This question paper consist of ONE sections.
4. Section A consist of five questions. Answer FOUR (4) questions only.
5. Please write your answer on the answer booklet provided.
6. Please answer all questions in English only.
7. Refer to the attached Formula/ Appendies.  Tick if applicable

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THERE ARE 5 PAGES OF QUESTIONS INCLUDING THIS PAGE

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**SECTION A (Total: 100 marks)**

**Answer FOUR (4) questions.**

**Please use the answer booklet provided.**

**Question 1**

Answer the following questions :

- (a) Explain the meaning of Gross Domestic Product and Gross National Product (GNP). Provide a brief distinction between Gross National Product (GNP) at factor price and GNP at market price. (8 marks)
- (b) The government purchases component of Gross Domestic Product (GDP) does not include spending on transfer payments such as pensions. Explain THREE (3) reasons why transfer payments are excluded in the calculation of GDP. (6 marks)
- (c) A country has a population of 50 million and a real GDP of \$1,000 billion. Calculate its GDP per capita and briefly explain what this value indicates about the country's standard of living. (5 marks)
- (d) Discuss THREE (3) shortcomings of using GDP as a measure of economic welfare (6 marks)

**Question 2**

Answer the following questions :

- (a) Using relevant diagrams, demonstrate the differences between Aggregate Expenditure (AE) and Aggregate Demand (AD).

(12 marks)

- (b) Discuss THREE (3) reasons why the Aggregate Demand (AD) curve is downward-sloping. Support your answer with an appropriate diagram.

(13 marks)

**Question 3**

Answer the following questions :

- (a) Suppose the economy is initially at full employment. A sudden rise in global oil prices increases production costs across all industries. Using an AD-AS diagram, illustrate and explain the short-run impact on the economy, and suggest an appropriate monetary or fiscal policy response.

(16 marks)

- (b) Define frictional, structural, and cyclical unemployment, and analyse the key differences between them.

(9 marks)

**Question 4**

Answer the following questions :

- (a) Examine THREE (3) monetary policy tools and explain how Bank Negara Malaysia (BNM) uses each tool to control the economy.

(15 marks)

- (b) During cleanup after severe flooding in Selangor, a group of volunteers found RM40,000 in cash in an abandoned shop. They returned it to the owner, who deposited the entire amount in a local bank. Assume the reserve requirement is 15%, and the bank was just meeting its reserve requirement prior to the deposit.

- i. How much of this new deposit must the bank hold in reserves, and how much becomes excess reserves?

(4 marks)

- ii. What is the value of the monetary multiplier, and what is the potential maximum increase in the money supply resulting from this deposit?

(3 marks)

- iii. Suppose the bank sells RM40,000 in government bonds to Bank Negara Malaysia. How much excess reserves will this generate, and by how much can the money supply potentially increase as a result?

(3 marks)

**Question 5**

Answer the following questions :

- (a) Define trade protection and briefly explain the reasons why it is necessary for a developing country.

(5 marks)

- (b) The production possibilities for Honduras and Venezuela are shown in the table below. Prior to trade, Honduras produces according to alternative C, and Venezuela produces according to alternative J.

*Refer Below - Table1 : Production Possibilities for Honduras and Venezuela .*

**Table 1: Production Possibilities for Honduras and Venezuela**

Country	Product	Option 1	Option 2	Option 3	Option 4	Option 5
Honduras	Bananas	20	15	10	5	0
	Mangos	0	3	6	9	12
Venezuela	Bananas	32	24	16	8	0
	Mangos	0	10	20	30	40

- i. Compute the opportunity cost of producing one unit of bananas and one unit of mangos for both Honduras and Venezuela. Using these opportunity costs, assess whether the two countries can benefit from specialization and indicate which product each country should focus on producing.

(10 marks)

- ii. Compute the opportunity cost of producing one unit of bananas and one unit of mangos for both Honduras and Venezuela. Based on these opportunity costs, determine whether the two countries can gain from specialization and identify which product each country should specialize in. After specialization, assume Honduras trades 10 units of bananas with Venezuela in exchange for 10 units of mangos. Calculate the gains from trade for each country and explain how both countries benefit.

(10 marks)

**END OF EXAMINATION PAPER**