



UNIVERSITI KUALA LUMPUR BUSINESS SCHOOL

FINAL EXAMINATION**JANUARY 2016 SEMESTER**

SUBJECT CODE : EIB 11703

SUBJECT TITLE : PRINCIPLES OF MACROECONOMICS

LEVEL : BACHELOR

TIME / DURATION : 9:00 AM – 12:00 PM (3 HOURS)

DATE : 31 MAY 2016

INSTRUCTIONS TO CANDIDATES

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 consists of FIVE (5) questions. Answer ALL questions.
 4. Please write your answers in the answer booklet provided.
 5. All questions must be answered in English (any other language is not allowed)
 6. This question paper must not be removed from the examination hall.
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THERE ARE FIVE (5) PAGES OF QUESTIONS, EXCLUDING THIS PAGE.

(Total: 100 marks)

Question 1

A. Suppose the aggregate demand and supply schedules for a hypothetical economy are as shown below.

Amount of real domestic output demanded RM billions	Price level (price index)	Amount of real domestic output supplied, RM billions
200	300	800
400	250	800
600	200	600
800	150	400
1000	100	200

i. Use these sets of data to graph the aggregate demand and supply curves on your answer script.

(4 marks)

ii. Identify the equilibrium price and output level in this hypothetical economy.

(2 marks)

iii. Clarify the reason that the price index of 150 and 250 are not at the equilibrium level.

(4 marks)

iv. Suppose demand increases by RM 400 billion at each price level. Determine the new equilibrium price and output.

(2 marks)

Illustrate your answer in the diagram of aggregate demand and supply earlier constructed in (a).

(2 marks)

B. Evaluate the likely effect of the following events would on Malaysian aggregate demand (AD) curve.

i. Malaysian government decided to reduce personal income taxes.

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(3 marks)

ii. Income falls in several countries that trade heavily with the Malaysia.

(3 marks)

20 marks

Question 2

A. The data in the first two columns below are for a private closed economy. Based on the following data, construct a new table in your answer script and answer the following questions.

Real GDP = D (RM billions)	Aggregate expenditures (RM billions)	Exports (RM billions)	Imports (RM billions)	Net exports (RM billions)	Aggregate expenditures (RM billions)
100	120	10	15		
125	140	10	15		
150	160	10	15		
175	180	10	15		
200	200	10	15		
225	220	10	15		
250	240	10	15		
275	260	10	15		

i. Identify the equilibrium GDP for the private closed economy.

(1 mark)

ii. Calculate net exports and aggregate expenditures in a private open economy and enter your answer in the table earlier constructed.

(4 marks)

iii. Identify the equilibrium GDP for the private open economy.

(1 mark)

iv. Determine what will happen to the equilibrium GDP if exports were RM 5 billion larger at each level of GDP.

(2 marks)

v. Determine what will happen to equilibrium GDP if exports remained at RM 10 billion, but imports dropped to RM 5 billion.

(2 marks)

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vi. Determine the size of the multiplier in this economy. (2 marks)

B. Clarify reasons exports are added to, and imports are subtracted from, aggregate expenditures in moving from a private closed economy to a private open economy. (4 marks)

C. Explain the effect of net exports, either positive or negative, on the equilibrium GDP. (4 marks)

20 marks

Question 3

A. Assume that a hypothetical economy with an MPC of 0.75 is experiencing severe recession.

i. By how much would government spending have to rise to shift the aggregate demand curve rightward by RM 30 billion? (4 marks)

ii. How large a tax cut would be needed to achieve the same increase in aggregate demand? (4 marks)

iii. Determine one possible combination of government spending increases and tax increases that would accomplish the same goal without changing the amount of outstanding debt. (6 marks)

B. Briefly discuss the fiscal policy action most likely to be invoked during a period of inflation. (6 marks)

20 marks

Question 4

A. Define money? Describe three functions that a commodity must fulfill to be useful as money. (4 marks)

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B. Define the reserve ratio. Explain how a change in the reserve ratio affects the money supply.

(4 marks)

C. Use the figures in the table below to answer the following questions.

	Billions (RM)
Small time deposits	1250
Money-market mutual funds held by businesses	1300
Savings deposits, i.e. money-market deposit accounts	1620
Money-market mutual funds held by individuals	905
Checkable deposits	836
Currency	325

Determine the value for:

- i. M1
- ii. M2

Show your working for all the above computations.

(4 marks)

D. Discuss TWO (2) of the principal tools of monetary policy and evaluate how each of the tools is used during of recession and high unemployment.

(8 marks)

20 marks

Question 5

A. Two countries; Taiwan and Singapore, have the production possibilities for computer chips and fuel injectors, shown in the tables below. Note that the costs of producing computer chips and fuel injectors are constant in both countries. All data are in 1000s.

TAIWAN					
Production Possibilities Alternatives	A	B	C	D	E
Computer chips	80	60	40	20	0
Fuel injectors	0	20	40	60	80

SINGAPORE					
Production Possibilities Alternatives	A	B	C	D	E
Computer chips	40	30	20	10	0
Fuel injectors	0	20	40	60	80

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i. Let say trade occurs between Taiwan and Singapore, determine which nation should export what product based on their comparative advantage. Clearly show your working.

22 (4 marks)

ii. Identify the limits of limits of the terms of trade between Taiwan and Singapore with regard to computer chips and fuel injectors.

(2 marks)

iii. Assume that prior to specialization and trade, Taiwan and Singapore chose production possibility "C." Now that each specializes according to comparative advantage, determine the resulting gains from this trade. Explain your answer.

(6 marks)

B. Following is hypothetical balance of payments data for Country Z. All numbers are in billions of Z dollars.

Goods exports	+ 45
Goods imports	-51
Service exports	+15
Service imports	-6
Net investment income	-10
Balance on capital account	+3
Net transfers	+12
Foreign purchases of Country Z's assets	+25
Country Z purchases of assets abroad	-33

Based on the above data, determine the amount of:

- Balance on goods and services
- Balance on the current account
- Balance on the financial account
- Balance on the capital and financial account

Show your working for all the above computations.

(8 marks)

20 marks

END OF QUESTION PAPER