



FACULTY OF BUSINESS

FINAL EXAMINATION

Student ID (in Figures) :

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Student ID (in Words) :

Subject Code & Name : **ECO1523 MACROECONOMICS**

Semester & Year : January – April 2022

Lecturer/Examiner : Suhada Binti Ishak

Duration : 3 Hours

INSTRUCTIONS TO CANDIDATES

1. This question paper consists of 2 parts:
 PART A (20 marks) : TWO (2) short answer questions. Answer ALL questions. Answers are to be written in the Answer Booklet provided.
 PART B (80 marks) : FOUR (4) problem solving questions. Answer ALL questions. Answers are to be written in the Answer Booklet provided.
2. Candidates are not allowed to bring any unauthorized materials except writing equipment into the Examination Hall. Electronic dictionaries are strictly prohibited.
3. This question paper must be submitted along with all used and/or unused rough papers and/or graph paper (if any). Candidates are NOT allowed to take any examination materials out of the examination hall.
4. Only ballpoint pens are allowed to be used in answering the questions, with the exception of multiple choice questions, where 2B pencils are to be used.

WARNING: The University Examination Board (UEB) of BERJAYA University College regards cheating as a most serious offence and will not hesitate to mete out the appropriate punitive actions according to the severity of the offence committed, and in accordance with the clauses stipulated in the Students' Handbook, up to and including expulsion from BERJAYA University College.

Total Number of pages = 4 (Including the cover page)

PART A : SHORT ANSWER QUESTIONS (20 MARKS)

INSTRUCTION(S) : Answer ALL questions on the answer booklet(s) provided.

Question 1

Define the ideas of Ricardian equivalence proposition.

(4 marks)

Question 2

Analyze what happens to desired national saving towards the increase of the following scenarios:

- i. Current output, Y
- ii. Expected future output
- iii. Wealth
- iv. Government purchases, G

Interpret the reason for each of the scenarios.

(16 marks)

[Total: 20 marks]

END OF PART A

PART B : STRUCTURE-TYPE QUESTIONS (80 MARKS)

INSTRUCTION(S) : Answer ALL questions on the answer booklet(s) provided.

Question 1

Discuss **FIVE (5)** main points about business cycles according to Burns and Mitchell (1946). Hence, sketch the business cycle figure.

(20 marks)

Question 2

Consider an economy in long-run equilibrium with an inflation rate (π) of 0.08 per year and a natural unemployment rate of 0.05. Suppose Okun's law holds and a one percentage point increase in the unemployment rate reduces real output by 2% of full-employment output. The expectations-augmented Phillips curve is given by:

$$\pi = \pi^e - 2.5 (u - 0.05).$$

Consider a two-year disinflation. In the first year, $\pi = 0.06$ and $\pi^e = 0.08$. In the second year,

$\pi = 0.04$ and $\pi^e = 0.05$. Solve the following issues:

- i. The value of the unemployment rate in the first year. (4 marks)
- ii. The percentage does output fall short of full-employment output in the first year. (4 marks)
- iii. The value of the unemployment rate in the second year. (4 marks)
- iv. The percentage does output fall short of full-employment output in the second year. (4 marks)
- v. The sacrifice ratio for this disinflation. (4 marks)

[Total: 20 marks]

Question 3

- a. Determine **THREE (3)** major components of M1 and **THREE (3)** major components of M2? Describe each component. (12 marks)
- b. Suppose the money demand function is

$$M^d/P = 1000 + 0.2Y - 1000 (r + \pi^e).$$

- i. Calculate velocity if $Y = 2500$, $r = .055$, and $\pi^e = .03$. (3 marks)
- ii. If the money supply (Ms) is 2600, identify the price level, P. (2 marks)

- iii. Now suppose the real interest rate rises to 0.1, but Y and M_s are unchanged. Determine what happens to velocity and the price level.

(3 marks)

[Total: 20 marks]

Question 4

- a. Fiscal policy refers to the use of government taxation and expenditure to influence the country's spending, employment and price level. List **FOUR (4)** objectives of fiscal policy
(8 marks)
- b. By using a table, differentiate between contractionary and expansionary policy for fiscal and monetary policy.

(12 marks)

[Total: 20 marks]

END OF EXAM QUESTIONS