



FACULTY OF BUSINESS

FINAL EXAMINATION

Student ID (in Figures) :

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Student ID (in Words) :

Course Code & Name : **ECO1523 MACROECONOMICS**
 Trimester & Year : September-December 2020
 Lecturer/Examiner : Dr Smitha Geetha
 Duration : 3 Hours

INSTRUCTIONS TO CANDIDATES

- This question paper consists of 2 parts:
PART A (20 marks) : TWO (2) short answer questions. Answers are to be written in the Answer Booklet provided.
PART B (80 marks) : FOUR (4) structure-type questions. Answers are to be written in the Answer Booklet provided.
- Candidates are not allowed to bring any unauthorized materials except writing equipment into the Examination Hall. Electronic dictionaries are strictly prohibited.
- 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.
- 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.

PART A : SHORT ANSWER QUESTIONS (20 MARKS)
INSTRUCTION(S) : Answer ALL questions on the answer booklet(s) provided.

Question 1

- a. Identify the difference between nominal and real economic variables. (2 marks)
- b. Explain why do economists tend to concentrate on changes in real magnitudes. (4 marks)
- c. State the growth rate form of Okun's Law
 - i. Interpret the variables in the equation. (4 marks)

[Total: 10 marks]

Question 2

Describe how would each of the following affect Cheryl Shirker's current consumption and saving? Cheryl is a forward-looking consumer with no borrowing constraints.

- a. Determine if Cheryl's firm announces a reorganization plan, increasing Cheryl's future income dramatically. (2 marks)
- b. Examine what will happen if Cheryl's father, who had planned to leave her a large bequest, must spend all his wealth on medical bills after a prolonged illness. (2 marks)
- c. Describe if the real interest rate rises from its original level. Cheryl originally planned to have no assets for the future; that is, she planned to spend all her original assets and all her income when she was young, and planned to consume an amount equal to her future income when she was old. (3 marks)
- d. Explain whether wage and price flexibility are crucial to the idea of the "invisible hand." (3 marks)

[Total: 10 marks]

END OF PART A

PART B : **STRUCTURE-TYPE QUESTIONS (80 MARKS)**
INSTRUCTION(S) : Answer ALL questions. Write your answers in the Answer Booklet(s) provided.

Question 1

Compare and contrast the classical and Keynesian schools of thought for the following economic issues.

- a. The flexibility of wages and prices. (5 marks)
- b. The importance of macroeconomic policies. (5 marks)
- c. Consider a small open economy in equilibrium. What happens to the real interest rate, national saving, investment, and the current account balance in equilibrium in each of the following situations (each taken separately). Explain which curve shifts and why, and show a diagram explaining your results. (You may assume that none of the shocks is large enough to significantly affect labor supply or labor demand significantly.)
 - (i) wealth declines (5 marks)
 - (ii) business taxes decline (5 marks)

[Total: 20 marks]

Question 2

- a. Describe the main ideas of endogenous growth theory. Analyze the role of government in economic growth. (5 marks)
- b. Evaluate that prices and wages adjust rapidly so that the markets for labor, goods, and assets are always in equilibrium. Analyze the effects of each of the following on output, the expected real interest rate, and the current price level.
 - (i) Explain if there is a temporary increase in taxes. (5 marks)
 - (ii) Interpret a reduction in the effective tax rate on capital. (5 marks)
 - (iii) Discuss if there is an increase in expected inflation. (5 marks)

[Total: 20 marks]

Question 3

- a. Explain whether or not the empirical evidence generally supports the belief that there is a fixed trade-off between unemployment and inflation, such that monetary policymakers can achieve the combination they prefer.

(10 marks)

- b. Describe the three different approaches to measuring the amount of economic activity that occurs during a period of time and explain why they all give identical measurements.

(10 marks)

[Total: 20 marks]

Question 4

- a. The nation of Small-Land produces soccer balls, cases of beer, and painkillers. Here are data on prices and quantities of the three goods in 2017 and 2018:

YEAR	BALLS		BEER		PAINKILLERS	
	Quantity	Price (RM)	Quantity	Price (RM)	Quantity	Price (RM)
2017	100	5	300	20	100	20
2018	125	7	250	20	110	25

Assume that 2017 is the base year. Find nominal GDP and real GDP for both years.

- (i) Nominal GDP₂₀₁₇ (3 marks)
(ii) Nominal GDP₂₀₁₈ (3 marks)
(iii) Real GDP₂₀₁₇ (2 marks)
(iv) Real GDP₂₀₁₈ (3 marks)

b. Using Income approach, calculate

- (i) National Income (NI) (3 marks)
- (ii) Gross National Product (GNP) (3 marks)
- (iii) Gross Domestic Product (GDP) (3 marks)

	RM (Million)
Personal Consumption	3,657
Depreciation	400
Wages	3,254
Indirect Business Taxes	500
Interest	530
Domestic Investment	741
Government Expenditures	1,098
Rental Income	17
Corporate Profits	341
Exports	673
Net Foreign Factor Income	20
Proprietor's Income	403
Imports	744

[Total: 20 marks]

END OF PART B