UTHM
Universiti Tun Hussein Onn Malaysia

UNIVERSITI TUN HUSSEIN ONN MALAYSIA

FINAL EXAMINATION
SEMESTER II
SESSION 2014/2015

COURSE NAME	:	ECONOMICS
COURSE CODE	:	BPA 10103
PROGRAMME	:	1 BPA / 1 BPB
EXAMINATION DATE	:	JUNE 2015 / JULY 2015
DURATION	:	3 HOURS
INSTRUCTION	:	ANSWER **ALL** QUESTIONS

THIS QUESTION PAPER CONSISTS OF **EIGHT (8)** PAGES

Q1   (a)   You are the owner and only employee of a company that sets odds for sporting events. Last year you earned a total revenue of RM100,000. Your costs for rent and supplies were RM50,000. To start this business you invested an amount of your own capital that could pay you a return of RM20,000 a year.

Calculate the following:

(i)   Economic cost during the year.

(1 mark)

(ii)   A yearly normal rate of return.

(1 mark)

(iii)   Accounting profit for last year.

(1 mark)

(iv)   Economic profit for last year.

(1 mark)

(b)   A lawn service company has the following production possibilities. With one, two, three, and four workers, the company can mow 4, 9, 12, and 14 lawns per day, respectively.

**Table Q1(b): Production possibilities schedules**

No. of workers	Total product (lawns per day)
1	4
2	9
3	12
4	14

Based on the information:

(i)   Calculate the Marginal Product and Average Product for each labour.

(2 marks)

(ii)   Draw the curves of Total Product, Marginal Product and Average Product of labour.

(3 marks)

(iii)   Identify the number of labor on which diminishing returns to labor set in.

(1 mark)

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(c)   The following **Figure Q1(c)** shows information on Total Variable Cost of producing basketball. The total fixed costs are $50.

Figure Q1(c): Cost of production
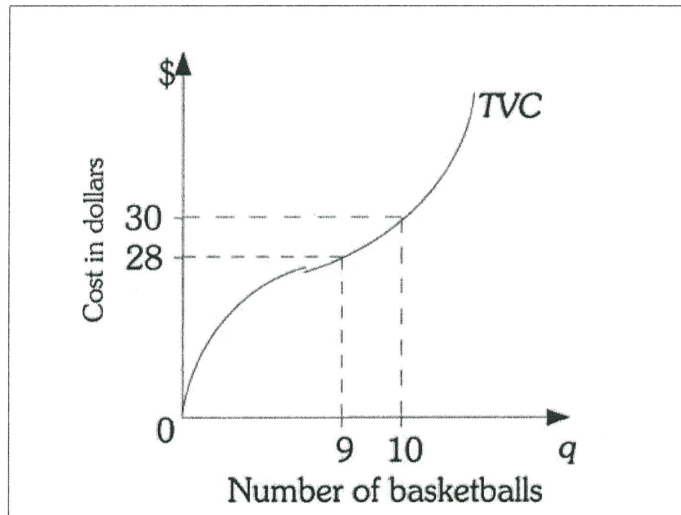
Based on the information:

(i)   Compute the marginal cost of the 10th basketball.

(1 mark)

(ii)   Calculate the average total cost of producing 10 basketballs.

(1 mark)

(iii) Determine the total cost of producing 10 basketballs.

(1 mark)

(iv)   Identify whether the firm is operating in the long run or short run.

(1 mark)

(d)   (i)   Explain efficient scale of production with the help of graphical presentation.

(2 marks)

(ii)   Analyse the economies and diseconomies of scale in the long run average total cost curve.

(4 marks)

Q2 (a) State **FOUR (4)** basic characteristics for each of the following market structure.

(i) Monopolistic competition

(2 marks)

(ii) Oligopoly

(2 marks)

(b) **Table Q2(b)** shows the unit cost information for Firm C that operates in a competitive market. Assume the market price for the firm's product is RM40 each.

Table Q2(b): Cost information of Firm C

Output	Average Fixed Cost (RM)	Average Variable Cost (RM)	Average Total Cost (RM)	Marginal Cost (RM)
1	60	45	105	45
2	30	42	72	40
3	20	40	60	35
4	15	38	53	30
5	12	37	49	35
6	10	38	48	40
7	9	39	48	45
8	8	41	49	55
9	7	43	50	65
10	6	46	52	75

(i) Determine the amount of output Firm C will produce in the short run.

(2 marks)

(ii) Calculate the amount of economic profit or economic loss associated with each level of output.

(5 marks)

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(c)   Firm D is a monopoly firm that face the similar cost schedule with Firm C in **Table Q2(b)**. The demand schedule for Firm D is shown in **Table Q2(c)**.

Table Q2(c): Demand schedule for Firm D

Price (RM)	Quantity Demanded
100	1
83	2
71	3
63	4
55	5
48	6
42	7
37	8
33	9
29	10

Based on the above information:

(i)   Compute total revenue and marginal revenue for Firm D.

(5 marks)

(ii)   Calculate the profit-maximising level and output for Firm D.

(2 marks)

(iii)   Assume Firm D could engaged in perfect price discrimination.

Compute the level of output and profits associated with perfect price discrimination by Firm D.

(2 marks)

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Q3 (a) Discuss each of the **FOUR (4)** components of Gross Domestic product (GDP) based on the expenditure approach.

(8 marks)

(b) **Table Q3(b)** shows hypothetical GDP data for country A.

Table Q3(b): Hypothetical GDP data for country A

	Billions of Dollars	
Personal consumption expenditures (C)	10,089.1	
Durable goods		1,035.0
Nondurable goods		2,220.2
Services		6,833.9
Gross private domestic investment (I)	1,628.8	
Nonresidential		1,388.8
Residential		361.0
Change in business inventories		−120.9
Government consumption and gross investment (G)	2,930.7	
Federal		1,144.8
State and local		1,786.9
Net exports (EX − IM)	−392.4	
Exports (EX)		1,564.2
Imports (IM)		1,956.6

Calculate Gross Domestic Product (GDP) using the expenditure approach based on the above table.

(2 marks)

(c) Real GDP calculation is based on the price level rather than the output level.

Explain the reason.

(3 marks)

(d) State the problem associated with comparing nominal GDP over time.

(2 marks)

(e) **Table Q3(e)** shows the nominal GDP and the associated price level from 2001 − 2006 for Country W.

Table Q3(e): Nominal GDP and GDP deflator of Country W from 2001 - 2006

Year	Nominal GDP (W billions)	GDP deflator 2001 = 100
2001	235.2	100
2002	428.2	128.1
2003	816.4	135.9
2004	1359.3	149.5
2005	2249.7	172.2
2006	3401.6	203.8

Compute real GDP from 2001 − 2006 for Country W.

(5 marks)

Q4 (a) Hypothetical labor statistics of country B are presented in the following **Table Q4(a).**

Table Q4(a) : Hypothetical Labor statistics of country B

Year	Population 16 years old and over	Labor force (millions)	Employed (millions)	Unemployed (millions)
2006	105.0	62.2	58.9	3.3
2007	117.2	69.6	65.8	3.9
2008	137.1	82.8	78.7	4.1
2009	167.7	106.9	99.3	7.6
2010	189.2	125.8	118.8	7.0

Based on the information given in **Table Q4(a):**

(i) Calculate the labor force participation rate in each of the years between 2006 to 2010.

(2 marks)

(ii) Calculate unemployment rate in each of the years between 2006 to 2010.

(2 marks)

(iii) Explain **THREE (3)** major types of unemployment.

(6 marks)

(b) Survey from consumers in Country Y has identified a fixed basket of goods for consumers, from 2012 - 2014 consists of 5 plates of rice and 3 bowls of tomyam.

Table Q4(b): Price of goods

Year	Price of a plate of chicken rice (RM)	Price of a bowl of tomyam (RM)
2012	4	3
2013	5	4
2014	6	5

Note : CPI = (Price of basket of goods and services/ price in base year) x 100

Inflation rate = $[(CPI_2 - CPI_1) / CPI_1] \times 100$

Based on the information:

(i) Compute the cost of the basket of goods each year from 2012 to 2014.

(2 marks)

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(ii)   Calculate the Consumer Price Index in each year by taking 2012 as a base year.

(2 marks)

(iii)   Compute inflation rate for the year 2013 and 2014.

(2 marks)

(iv)   CPI is not a perfect measure of the cost of living.

Explain.

(4 marks)

Q5   (a)   Define the following terms:

(i)   Surplus Budget

(1 mark)

(ii)   Deficit Budget

(1 mark)

(iii)   Balanced Budget

(1 mark)

(b)   Fiscal policy is one of the tools that can be used by the government to stabilise the economy. The fundamental purpose of fiscal policy is to eliminate unemployment or inflation. There are two types of fiscal policy; expansionary and discretionary fiscal policy.

Discuss the economic situations where expansionary and discretionary fiscal policy are used.

(5 marks)

(c)   Similar to fiscal policy, the goal of monetary policy is to stabilise the economy.

(i)   State **THREE(3)** major instruments of the monetary policy.

(3 marks)

(ii)   Assume the economy is facing a prolonged inflationary trend.

Discuss **THREE (3)** methods through which the Central Bank would use the instruments of the monetary policy to reduce inflation.

(9 marks)

-END OF QUESTIONS-