UNIVERSITI TUN HUSSEIN ONN MALAYSIA

FINAL EXAMINATION
SEMESTER I
SESI 2015/2016

COURSE NAME	:	ECONOMICS
COURSE CODE	:	BPA 10103
PROGRAMME	:	1 BPC / 1 BPD
EXAMINATION DATE	:	DECEMBER 2015 / JANUARY 2016
DURATION	:	3 HOURS
INSTRUCTION	:	ANSWER **ALL** QUESTIONS

THIS QUESTION PAPER CONSISTS OF **SIX (6)** PAGES

Q1 (a) **Figure Q1(a)** refers to a purely competitive firm and the industry that operates in the short run.

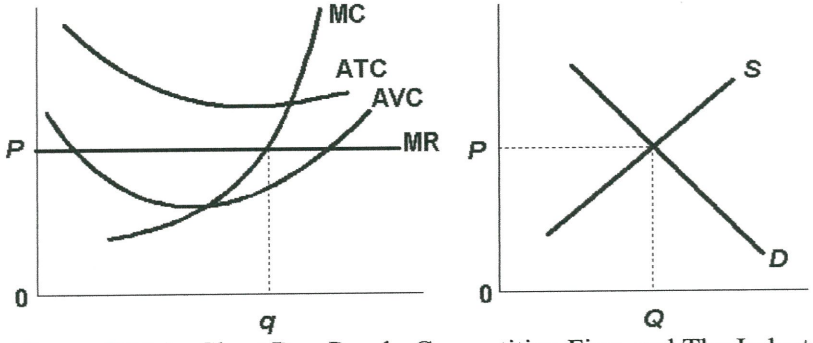

Figure Q1(a) : Short Run Purely Competitive Firm and The Industry

(i) Explain whether the firm should stop or continue its operation.
(4 marks)

(ii) Explain what happen to the number of firms, supply and price in the long run.
(4 marks)

(iii) Draw the adjustment that brings the firm into equilibrium in the long run.
(2 marks)

(iv) Identify the amount of profit enjoyed by the firm in the long run. Provide hypothetical empirical example in your answer.
(2 marks)

(b) In the long run, firms in competitive market achieve allocative efficiency and productive efficiency in their production.

Describe productive efficiency and allocative efficiency.
(4 marks)

(c) Advertising is done by monopolistic firm which sells a differentiated product to ensure that customers know that its product differs from its competitors.

Explain how advertising benefits the firm in its cost and production with the help of graphical presentation.
(4 marks)

Q2 (a) Differentiate between Gross Domestic Product (GDP), Gross National Product (GNP) and National Income (NI).

(6 marks)

(b) Country A has the following account for the year 2014, as shown in **Table Q2(b).**

Table Q2(b): Country A's National Account in Billion Croon in 2014

Item	Value (Billion Croon)
Personal Consumption Expenditure	17,000
Private Domestic Investment	7,032
Government Expenditure	7,055
Net Export of Goods and Services	-716
Depreciation	1,985
Compensation to Employees	9,500
Net Interest	700
Rental Income	500
Corporate Profit	2,500
Proprietors' Income	3,100
Indirect Tax less Subsidies	1,300

(i) Compute GDP of Country A using the expenditure approach.

(4 marks)

(ii) Compute GDP of Country A using the income approach.

(4 marks)

(c) Country N's nominal and real GDP from 2011 to 2014 are shown in **Table Q2(c).**

Table Q2(c): Nominal and Real GDP of Country N from 2011-2014

Year	Nominal GDP (N$ billion)	Real GDP (N$ billion)
2011	615.8	615.8
2012	750.2	722.6
2013	855.0	757.9
2014	890.4	801.7

(i) Compute the GDP deflator for Country N from 2011 to 2014.

(2 marks)

(ii) Explain the use of GDP deflator in national income accounting.

(4 marks)

Q3 (a) There are three types of labour market indicators and they are the unemployment rate, the employment-to-population ratio and labour force participation rate.

Explain the following terms:

(i) Unemployment rate

(2 marks)

(ii) Employment-to-population ratio

(2 marks)

(iii) Labour force participation rate

(2 marks)

(b) Minimum wage law is a form of government intervention in the economy aiming at stabilizing and regulating the factor market. Although economists assume that the introduction of minimum wage law has a negative effect on the unemployment rate in a country, the law itself has a positive effect on the employee and the productivity of a country.

Discuss the positive effects of minimum wage law on employee and the productivity in the economy from the view point of the government.

(8 marks)

(c) Data for Country V's labour force and employment are shown in **Table Q4(c)** for 2013 and 2014. The population of Country V in 2012 is 23.5 million people.

Table Q4(c): Labour Force and Employment Data of Country V

Item	2013	2014
Labour force participation rate	80%	81%
Labour Force	18.3 mil	19.0 mil
Number of people employed	15.7 mil	16.9 mil

Compute the following items for 2013 and 2014:

(i) The total population.

(2 marks)

(ii) The unemployment rate.

(2 marks)

(iii) The employment-to-population ratio.

(2 marks)

Q4 (a) Differentiate between inflation and deflation.

(2 marks)

(b) Discuss **THREE (3)** problems that are associated with inflation in the economy.

(9 marks)

(c) **Table Q4(c)** contains information on price and quality for Good A and Good B, from 2010 - 2012.

Table Q4(c): Price and Quantity Information of Country F 2010 – 2012

Year	Good A		Good B	
	Price	Quantity	Price	Quantity
2010	5	350	10	525
2011	6	457	15	769
2012	7	521	20	980

Compute:

(i) Consumer Price Index (CPI) for 2010 – 2012.

(6 marks)

(ii) The inflation rate for 2011 – 2012.

(3 marks)

Q5 Monetary policy is the actions of the central bank to manage the money supply and interest rates to achieve its macroeconomic policy goals.

(a) Explain **TWO (2)** goals of macroeconomic policy of the central bank.

(4 marks)

(b) Explain **TWO (2)** reasons for the situation where an increase in the interest rate causes the decrease the quantity of money demanded.

(4 marks)

(c) **Figure Q5(c)** shows the graph of the money market where MS represents the supply of money curve and MD represents the demand for money curve.

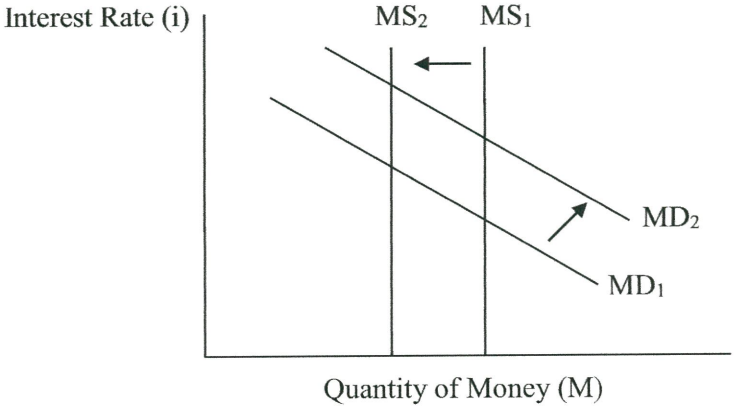

Figure Q5(c): Money Market Equilibrium

(i) Describe the situation where the money supply curve shifts from MS_1 to MS_2.

(1.5 marks)

(ii) Describe the situation where the money demand curve shifts from MD_1 to MD_2.

(1.5 marks)

(d) Explain **TWO (2)** effects of fiscal policy on the supply-side of the economy.

(4 marks)

(e) (i) Define tax wedge.

(1 mark)

(iii) Explain the effect of Goods and Services Tax (GST) on expenditure and the tax wedge.

(4 marks)

-END OF QUESTION-