UTHM
Universiti Tun Hussein Onn Malaysia

UNIVERSITI TUN HUSSEIN ONN MALAYSIA

FINAL EXAMINATION
SEMESTER II
SESSION 2015/2016

COURSE NAME	:	ECONOMICS
COURSE CODE	:	BPA 10103
PROGRAMME	:	BPA / BPB
EXAMINATION DATE	:	JUNE / JULY 2016
DURATION	:	3 HOURS
INSTRUCTION	:	ANSWER **ALL** QUESTIONS

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

Q1 Table Q1 shows the amount of output produced by Firm W using two (2) types of inputs, Factor X and Factor Y.

Table Q1: Firm W's production output

Output per day	Input	
	Factor X (units)	Factor Y (units)
50	2	6
120	4	12
260	8	24
520	16	48
1000	32	96

(a) Explain whether Firm W is operating in the short-run or long-run period.

(5 marks)

(b) Explain the range of output the firm experiences in:

(i) Diseconomies of scale

(5 marks)

(ii) Constant economies of scale

(5 marks)

(iii) Economies of scale

(5 marks)

Q2 (a) Legoland Water Park at Iskandar Putri is considering a price discrimination exercise in respect of its customers who are either members or non-members. The figures **Q2(a)(i)** and **Q2(a)(ii)** below show the both markets for the Legoland Water Park. Assume that the marginal cost (MC) for both market is constant.

Figure **Q2(a) (i):** Members

Figure **Q2(a)(ii):** Non-members
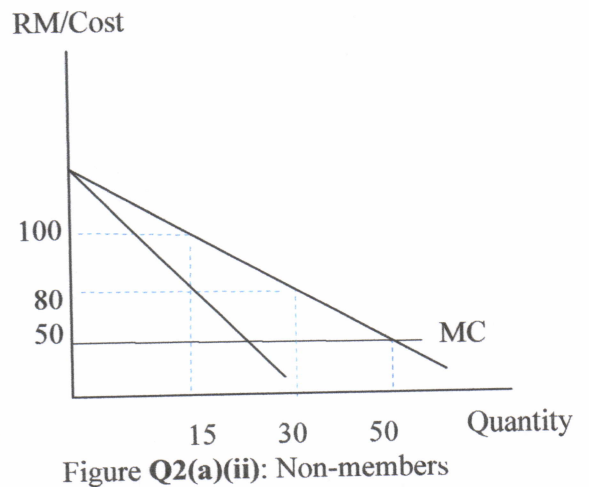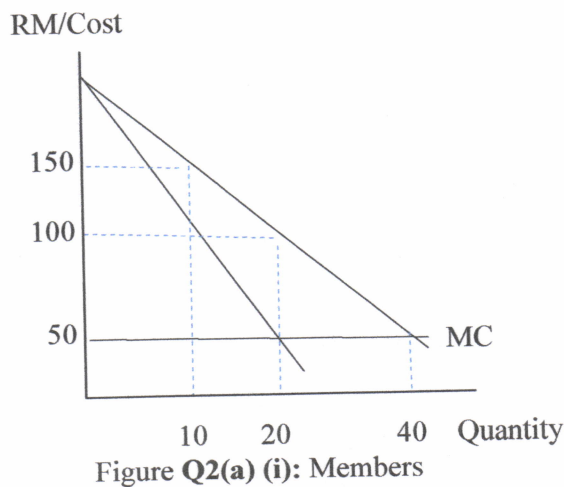
(i)   Determine the profit maximizing price and quantity in each market.

(4 marks)

(ii)   Compute the profit for both members and non-members market given the assumption that MC is equal to AC.

(4 marks)

(iii)   List **TWO (2)** conditions or assumptions of price discrimination.

(2 marks)

(iv)   State the type of price discrimination Legoland Water Park put into practice.

(1 mark)

(b)   **Figure Q2(b)** refers to the demand curve facing Firm R in an industry that produces either identical or differentiated product and entry of any new seller is difficult or impossible.
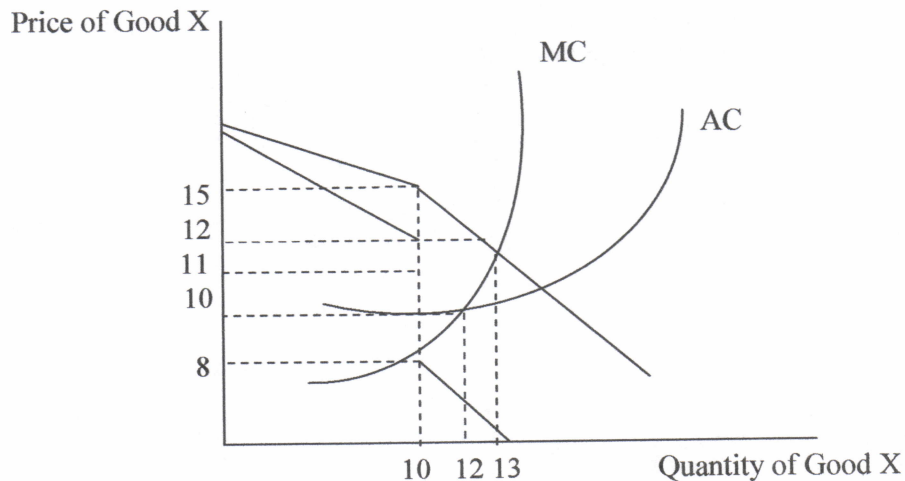

Figure **Q2(b)**: Kinked demand curve and firm equilibrium

(i)   State with reason the type of market structure Firm R operates in.

(2 marks)

(ii)   State the equilibrium price and quantity for Firm R.

(2 marks)

(iii)   List **TWO (2)** assumptions of the kinked demand curve.

(2 marks)

(iv)   Compute the total profit or loss at the equilibrium point.

(2 marks)

(v)   State the type of profit or loss Firm R earns in **Q2(b)(iv)**.

(1 mark)

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Q3   (a)   Discuss all of the components of income approach and expenditure approach in calculating GDP.

(4 marks)

(b)   Differentiate between GDP and GNP.

(2 marks)

(c)   **Table Q3(c)** shows the components of GDP earned by country A in year 2015.

Table Q3(c) : Components of GDP

Components	$ billion
Personal Consumption (C)	
Durable goods	360.80
Non-durable goods	2,666.77
Services	3,408.35
Gross private domestic investment (I)	
Non residential investment	987.35
Residential investment	365.66
Changes in inventories	9.85
Government spending (G)	
Federal government	540.25
State government	377.23
Local government	250.75
Net Export (X-M)	
Export	872.65
Import	1,125.40

(i)   Compute total GDP of Country A.

(4 marks)

(ii)   Identify the approach used in calculating GDP in **Table Q3(c)**.

(1 mark)

(d)   Country Z produces two goods which are bags and shoes.   **Table   Q3(d)** shows the prices and quantities of the two goods for three years.

Table Q3(d): GDP of country Z (2012-2014)

Year	Bag		Shoe	
	Price ($)	Quantity	Price ($)	Quantity
2012	16	120	12	200
2013	18	200	15	300
2014	20	180	18	275

(i)   Compute the nominal GDP of country Z from 2012 to 2014.

(3 marks)

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    (ii)   Compute real GDP of country Z for each year from 2012 – 2014, taking 2012 as the base year.

                        (3 marks)

    (e)   Describe the condition in which GDP may not be a very good measure of the economic wellbeing of an individual in a country.

                        (3 marks)

Q4   Two major macroeconomic problems are inflation and unemployment. Inflation is the situation where there is an increase in the overall level of price in the economy, while unemployment describes the occasion where there are working adults in the economy who are unable to find work.

    (a)   The relationship between the unemployment rate and the rate of inflation can be shown by the short-run Phillips Curve.

            Explain using a diagramme how does the Phillips Curve indicate about the trade-off between inflation and unemployment.

                        (4 marks)

    (b)   Country X population has three items in their basket of consumption. The items and their related details are shown in **Table Q4(b)**. X/unit refers to price per unit of the mentioned item.

Table Q4(b): Population of Country X's basket of consumption

Item	2012		2013		2014	
	Quantity	X/Unit	Quantity	X/Unit	Quantity	X/Unit
Water	250	2.50	270	2.70	300	2.90
Transport	130	5.60	220	6.00	310	6.20
Food	500	3.20	550	4.00	300	4.50

        (i)   Compute the Consumer Price Index for 2012 – 2014 of Country X

                        (6 marks)

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

                        (4 marks)

(c) Country X total population details are shown in Table **Q4(c)**.

Table Q4(c): Population details of Country W

Year	Population	Not in Labour Force	Employed	Unemployed
2012	10 million	3 million	5.5 million	1.5 million
2013	15 million	5 million	8.2 million	1.8 million
2014	22 million	9 million	11 million	2 million

Compute Country X unemployment rate from 2012 to 2014.

(6 marks)

Q5 Bank creates money using the deposit that are banked in by the customers of a bank. On a bank's balance sheet, reserves and loans are assets while deposits are liabilities to a bank. Reserves are deposit that the bank has retained rather than loaned out or invested. Required reserves are reserves that bank are legally required to hold by the central bank. The fraction of deposits that banks are required to keep as reserves is called required reserve ratio. Any reserves banks hold over and above the legal requirement are called excess reserve. Assume a customer deposit RM2,000 in an account at a branch of Bank of Malaysia. There is no excess reserve at the time of deposit and the required reserve ratio is 20%.

(a) Compute the initial impact of the deposit on Bank of Malaysia's balance sheet using a T-account.

(3 marks)

(b) Assume Bank of Malaysia makes the maximum loan it can from the deposit.

Compute the impact of the loan on Bank of Malaysia's balance sheet using the T-account in Q5(a).

(3 marks)

(c) A person took out the loan in Q5(b) and deposit it in an branch of Citibank.

Compute the impact of this transaction on the Bank of Malaysia and Citibank's balance sheets.

(6 marks)

(d) (i) Compute the maximum increase in total deposit resulted from the RM2,000 deposit.

(4 marks)

(ii) Compute the maximum increase in money supply resulted from the RM2,000 deposit.

(4 marks)

- END OF QUESTION -