UNIVERSITI TUN HUSSEIN ONN MALAYSIA

FINAL EXAMINATION
SEMESTER II
SESSION 2016/2017

COURSE NAME	:	ECONOMICS
COURSE CODE	:	BPA 10103
PROGRAMME CODE	:	BPA / BPB
EXAMINATION DATE	:	JUNE 2017
DURATION	:	3 HOURS
INSTRUCTION	:	ANSWER **ALL** QUESTIONS

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

Q1 (a) Differentiate the followings:

(i) Sunk cost versus incremental cost.

(ii) Fixed cost versus variable cost.

(iii) Incremental cost versus marginal cost.

(6 marks)

(b) The Central Publishing Company is about to publish a new book on Economics and is in the process of estimating the costs. The fixed cost is estimated at RM150,000 (paper and equipment) while the variable cost is 15% of the price of the book, at RM50 per book. The projected volume of demand is shown in **Table Q1(b)**.

Table Q1(b): Projected volume of demand for Economics book

No	Year	Number of Books
1	2018	2,000
2	2019	3,000
3	2020	5,000
4	2021	7,000
5	2022	10,000

Compute:

(i) The total variable cost, total fixed cost and total cost.

(3 marks)

(ii) The average variable cost, average fixed cost, average total cost and marginal cost.

(4 marks)

(c) Based on the cost information in **Q1(b)**, determine the output level that the Central Publishing Company should produce.

(1 mark)

(d) Explain the followings:

(i) Economies of scale.

(ii) Constant returns to scale.

(iii) Diseconomies of scale.

(6 marks)

Q2 (a) Firm D is a manufacturer of electronic products producing telecommunication equipment in a competitive market. The average price in the market for the same telecommunication equipment is currently at RM50. Its estimated short-run cost function and expected demand is shown in **Table Q2(a)**.

Table Q2(a): Firm D estimated cost function and expected demand

No	Demand	AVC (RM)	AC (RM)	MC (RM)
1	9,000	41.10	52.21	30.70
2	10,000	40.00	50.00	30.10
3	11,000	39.10	48.19	30.10
4	12,000	38.40	46.73	30.70
5	13,000	37.90	45.59	31.90
6	14,000	37.60	44.74	33.70
7	15,000	37.50	44.17	36.10
8	16,000	37.60	43.85	39.10

Compute:

(i) Estimated total revenue and marginal revenue at each level of output.

(8 marks)

(ii) Estimated profit or loss at each level of output based on the estimated cost and revenue.

(4 marks)

(b) Explain whether the firm should enter the market for telecommunication equipment based on the information **Q2a(i)** and **Q2a(ii)**.

(2 marks)

(c) Firm C has just developed the only handheld computer and obtained a patent on its invention. Its estimated cost schedule, price and quantities of demand for the computer is shown in **Table Q2(c)**.

Table Q2(c): Cost schedule, estimated price and quantity for Firm C

Demand	Price (RM)	MR (RM)	AC (RM)	AVC (RM)	MC (RM)
0	1,650				
1,000	1,570	1,570	2,281	1,281	1,281
2,000	1,490	1,410	1,634	1,134	987
3,000	1,410	1,250	1,342	1,009	759
4,000	1,330	1,090	1,156	906	597
5,000	1,250	930	1,025	825	501

Compute:

(i) The total revenue and profit or loss at each level of estimated demand. (5 marks)

(ii) The price level the firm should charge if it wishes to maximize profits in the short-run. (1 mark)

Q3 (a) Differentiate between nominal Gross Domestic Product (GDP) and real GDP. (2 mark)

(b) Identify the **FOUR (4)** components of GDP expenditure approach. (2 marks)

(c) **Table Q3(c)** shows the data the land of milk and honey for year 2014 until 2016.

Table Q3(c): The Real and Nominal GDP

Year	Price of Milk Per litre	Quantity of Milk	Price of Honey per litre	Quantity of Honey
2014	RM1	100	RM2	50
2015	RM1	200	RM2	100
2016	RM2	200	RM4	100

Compute the followings for each year using 2014 as the base year:

(i) Nominal GDP.
(ii) Real GDP.
(iii) GDP deflator.

(6 marks)

(d) It was reported that at Sunny Beach, the total population stood at 11,500 people. The details on Sunny Beach labour market as of July 2016 is shown in **Table Q3(d).**

Table Q3(d): Labour market information of Sunny Beach

Item	July 2016
Population	16,000
Employed	10,000
Unemployed	1,000
Not in Labour Force	5,000

Compute:

(i) The unemployment rate in July 2016. (2 marks)

(ii) The employment-to-population ration in July 2016 (1 mark)

(e) The price level measures the average level of price and the value of money. There are two types of changes in the price level i.e. inflation and deflation.

(i) Define inflation and deflation.

(2 marks)

(ii) Discuss **TWO** (2) problems that are associated with inflation in the economy.

(4 marks)

Q4 (a) Explain the Keynesian Theory of Liquidity Preference.

(4 marks)

(b) The Malaysian economy experiences high inflationary period. Due to the high inflation rate in the economy, Bank Negara Malaysia sells the government bond in the open market as part of its contractionary monetary policy.

Explain the effect of the above policy on:

(i) Money supply.

(ii) Interest rate.

(iii) Consumption.

(iv) Investment.

(8 marks)

(c) Fiscal policy is one of the tools that are utilized by the government to stabilize the economy in the short-run and long-run measures. Fiscal policy constitutes both discretionary and non-discretionary approach.

Explain:

(i) The non-discretionary fiscal policy using relevant examples.

(4 marks)

(ii) The discretionary fiscal policy using relevant examples.

(4 marks)

Q5 (a) Explain the **THREE (3)** functions of money.

(6 marks)

(b) The Central Bank has authority over the financial system of a country to ensure a stable flow of the economic activities as well long-term growth of the economy. To ensure the stability of the financial system of an economy, the Central Bank has three tools that it could utilize.

(i) Identify the **THREE (3)** tools of monetary policy.

(3 marks)

(ii) Discuss the works of the three tools of the Central Bank to increase the money supply in the economy.

(6 marks)

(c) Assume the banking system has RM100 billion in demand deposits and RM10 billion in reserves. In addition, assume that the required reserve ratio is 5%.

Compute:

(i) Excess reserves in this system.

(2 marks)

(ii) The value of the money multiplier

(1 mark)

(iii) The amount of change in demand deposit creation that could take place if the banking system lent out all of its excess reserves in **Q5(c)(i).**

(2 marks)

- END OF QUESTIONS –