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Universiti Tun Hussein Onn Malaysia

UNIVERSITI TUN HUSSEIN ONN MALAYSIA

**FINAL EXAMINATION
SEMESTER I
SESSION 2017/2018**

COURSE NAME : PRINCIPLES OF ECONOMICS /
ECONOMICS

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EXAMINATION DATE : DECEMBER 2017/ JANUARY 2018

DURATION : 3 HOURS

INSTRUCTION : ANSWER ALL QUESTIONS

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THIS QUESTION PAPER CONSISTS OF NINE (9) PAGES

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- 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) The economic costs of the firm.
- (ii) A yearly normal rate of return for your company.
- (iii) Accounting profit last year.
- (iv) Economic profit last year.

(8 marks)

- (b) The Oceanic Fleet has just decided to use the traditional method of fishing by hiring a fisherman and a boat. Assume the daily wage for the fisherman is RM100 and the cost for the boat is RM300 per boat. The amount of fish that could be caught with different fisherman sizes are shown in **Table Q1(c)**.

Table Q1(c): Fisherman and fish caught schedule

Number of fisherman	Daily catch (kg) (TP)	Average Product (AP)	Marginal Product (MP)
0	0		
1	50		
2	110		
3	300		
4	450		
5	590		
6	665		
7	700		
8	725		
9	710		

- (i) Calculate the AP and MP of the traditional fishing method. (4 marks)
- (ii) Compute total cost (TC), total fixed cost (TFC), total variable cost (TVC) and marginal cost (MC). (4 marks)
- (iii) Determine the number of fisherman that the firm should hire at efficiency. (2 marks)

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- (c) Firm Z is producing teak furniture in an industrial area. The demand for the furniture is good and the firm is making a good profit. The production costs of the firm are shown in **Table Q1(c)**.

Table Q1(c): Production costs of Firm Z

Qty	Total Cost (TC) (RM)	Variable Cost (VC) (RM)	Average Fixed Cost (AFC) (RM)	Average Variable Cost (AVC) (RM)	Average Total Cost (ATC) (RM)	Marginal Cost (MC) (RM)
0	3.00	0	-	-	-	-
1	3.30	0.30	3.00	0.30	3.30	0.30
2	3.80	0.80	1.5	0.40	1.9	0.50
3	4.50	1.50	1.0	0.5	1.5	0.7
4	5.40	2.40	0.75	0.60	1.35	0.90
5	6.50	3.50	0.6	0.7	1.30	1.1
6	7.80	4.80	0.5	0.8	1.3	1.3
7	9.30	6.30	0.43	0.90	1.33	1.50
8	11.00	8.00	0.38	1.0	1.38	1.70
9	12.90	9.90	0.33	1.1	1.43	1.9
10	15.00	12.00	0.3	1.20	1.5	2.10

Draw the AFC, AVC, ATC and MC curves of the firm.

(2 marks)

- Q2 (a)** You are hired as an economic consultant to The Pampered Pet Shop. The Pampered Pet Shop operates in a perfectly competitive industry. This firm is currently producing 200 units of output at a point where market price equals its marginal cost at RM12. The Shop's total revenue exceeds its total variable cost, but is less than its total cost. Average variable cost is RM8, and average total cost is RM15. .

- (i) Draw a graphical presentation showing the marginal revenue, marginal cost, average variable cost and average total cost curves of the firm.
(2 marks)

- (ii) Calculate the total cost, total variable cost, total revenue, and the profit of the firm.
(4 marks)

- (iii) Determine whether the firm should continue the production or shut down in the short run.
(1 mark)

- (b) State the **THREE (3)** sources of barriers to entry that lead to the existence of monopoly.



(3 marks)

- (c) The objective of the firm is to maximize profit. **Figure Q2(c)** shows graphical presentation of a monopolist firm whilst attaining its profit maximization objective.

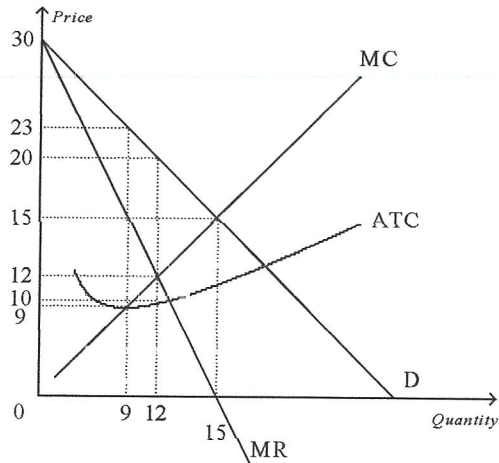


Figure Q2(c) : Monopolist profit maximization cost and revenue

Calculate the following:

- (i) Total revenue of the firm. (2 marks)
- (ii) Total cost of the firm. (2 marks)
- (iii) Amount of profit enjoyed by the firm. (1 mark)

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- (d) Sally owns the only shoe store in town. The cost and revenue information of the shoe store is presented in **Table Q2(d)**.

Table Q2(d) : Cost and revenue of Sally's shoe store

COSTS			REVENUES			
Quantity Produced (pairs)	Total Cost (\$)	Marginal Cost	Quantity Demanded	Price (\$/unit)	Total Revenue	Marginal Revenue
0	100	--	0	170	0	--
1	140		1	160	160	
2	184		2	150	300	
3	230		3	140	420	
4	280		4	130	520	
5	335		5	120	600	
6	395		6	110	660	
7	475		7	100	700	
8	565		8	90	720	

- (i) Calculate marginal cost (MC), and marginal revenue (MR) of the firm. (3 marks)
- (ii) Identify the amount of profit maximizing quantity and price. (2 marks)

- Q3** (a) (i) Define Gross Domestic Product (GDP). (2 marks)
- (ii) State the final goods and services those are not included in GDP. (3 marks)

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- (b) **Table Q3(b)** shows the components of GDP earned by Country A in year 2016.

Table Q3(b): Components of Country A's GDP (2016)

Components	RM billion
Personal consumption expenditures (C)	
Durable goods	1,035.0
Nondurable goods	2,220.2
Services	6,833.9
Gross private domestic investment (I)	
Nonresidential	1,388.8
Residential	361.0
Change in business inventories	-120.9
Government consumption and gross investment (G)	
Federal	1,144.8
State and local	1,786.9
Net exports (EX – IM)	
Exports (EX)	1,564.2
Imports (IM)	1,956.6

Compute total GDP of Country A.

(5 marks)

- (c) Between 2014 and 2015, Gross Domestic Product (GDP) measured in current prices fell from RM96 billion to RM48 billion. Over the same period, the relevant price index fell from 100 to 75 points.

(Note: $Real\ GDP = Nominal\ GDP / Price\ Index$;
 $GDP\ deflator = [Nominal\ GDP / Real\ GDP] \times 100$)

- (i) Compute the percentage decline in nominal GDP from 2014 to 2015.
(2 marks)
- (ii) Compute the percentage decline in real GDP from 2014 to 2015.
(2 marks)

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- (iii) Calculate GDP deflator for the year 2014 and 2015. (2 marks)
- (iv) Interpret the value of GDP deflator in Q3(c)(iii) above. (2 marks)
- (v) Describe a condition in which GDP may not be a very good measure of the economic wellbeing of an individual in a country. (2 marks)

Q4 (a) In a simple economy, people only consume two items: computer and car. The total amount of consumption is 50 units of computer and 10 units of car. The prices associated with these two items are shown in **Table Q4(a)**. The base year is 2013.

Table Q4(a) : Consumption details

Year	Computer			Car		
	Price /unit (RM)	Qty	Total (RM)	Price/ unit (RM)	Qty	Total (RM)
2013	400	50	20,000	1000	10	10,000
2014	600	50	30,000	2000	10	20,000
2015	1000	50	50,000	3500	10	35,000

- (i) Compute the Consumer Price Index (CPI) from year 2013 – year 2015. (3 marks)
 - (ii) Compute the inflation rate for the year 2014 and year 2015. (4 marks)
 - (iii) Explain the effects of inflation to the people in the economy. (3 marks)
- (b) The data on labour by countries are given in **Table Q4(b)**.

Table Q4(b): Data on labour by countries

Country	Adult Population	Labor Force	Employed	Unemployed	Unemployment Rate	Labor-Force Participation Rate
Japan	109,474		62,510	3,500		
France		26,870		2,577		57.41
Germany	70,159	39,591			9.69	

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Compute the following:

- (i) Japan's labor force, unemployment rate and labor-force participation rate.
(3 marks)
- (ii) France's adult population, number of employed, unemployment rate.
(3 marks)
- (iii) Germany's number of employed, unemployed and labor-force participation rate.
(3 marks)
- (c) State the relationship between unemployment and inflation according to Philip's curve.
(1 mark)

- Q5** (a) (i) State the **THREE (3)** functions of money in the economy.
(3 marks)
- (ii) Draw a simple T-account for First National Bank which has RM5,000 of deposits. A required reserve ratio of 10 percent.
(2 marks)
- (iii) Compute how much money can be created from the reserves if the reserve ratio is increased to 20 percent.
(2 marks)
- (b) (i) Suppose the government reduces GST by RM20 billion in budget 2018. There is no crowding out, and that the marginal propensity to consume is 0.75.

Calculate the initial effect of the tax reduction on aggregate demand.
(2 marks)
- (ii) Due to leakages in the economy, the government spending has reduced by RM1 billion. The marginal propensity to consume is 0.8.

Calculate the effect of the leakages to the aggregate demand in the economy.
(2 marks)
- (c) Describe the **THREE (3)** tools of monetary policy.
(3 marks)

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- (d) Explain how each of the following changes the money supply. Tell whether the changes are for expansionary or contractionary monetary policy.
- (i) The Central Bank buys bonds. (2 marks)
 - (ii) The Central Bank raises the reserve requirement. (2 marks)
 - (iii) The Central Bank raises the discount rate. (2 marks)

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- END OF QUESTIONS -