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UNIVERSITI TUN HUSSEIN ONN MALAYSIA

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

COURSE NAME : PRINCIPLES OF ECONOMICS /
ECONOMICS

COURSE CODE : BPA12403 / BPA10103

PROGRAMME CODE : BPA / BPB / BPP

EXAMINATION DATE : JUNE / JULY 2018

DURATION : 3 HOURS

INSTRUCTION : ANSWER ALL QUESTIONS

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

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Q1 (a) Differentiate the following terminologies:

- (i) Explicit cost and implicit cost
- (ii) Accounting profit and economics profit

(4 marks)

(b) Indah Carpet Sdn. Bhd. is a carpet cleaning service company. The production possibilities of the labours are shown in the following **Table Q1**.

Table Q1: Production possibilities of labours

No. of labours	Total product (carpets per day)	Marginal product	Average product
1	6	6	
2	13		
3	18		6
4	22	4	
5	25		5

(i) Complete the Marginal Product and Average Product of labour in **Table Q1**.

(3 marks)

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

(3 marks)

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

(1 mark)

(c) A better technological change in production would increase the productivity. It also shifts the Marginal Product (MP) and Average Product (AP) curves upward. With a better technology, the same inputs can produce more output and lowers the Total Cost (TC) and Average Total Cost (ATC), and shifts the cost curves downward.

Demonstrate graphically with appropriate diagram the effect of technological improvement on the following curves:

- (i) Total Product and Average Product curves.
- (ii) Total Cost and Average Total Cost curves

(4 marks)



- Q2 (a)** Figure Q2(a) indicates profit maximizing situation of a monopolistic company producing pizza.

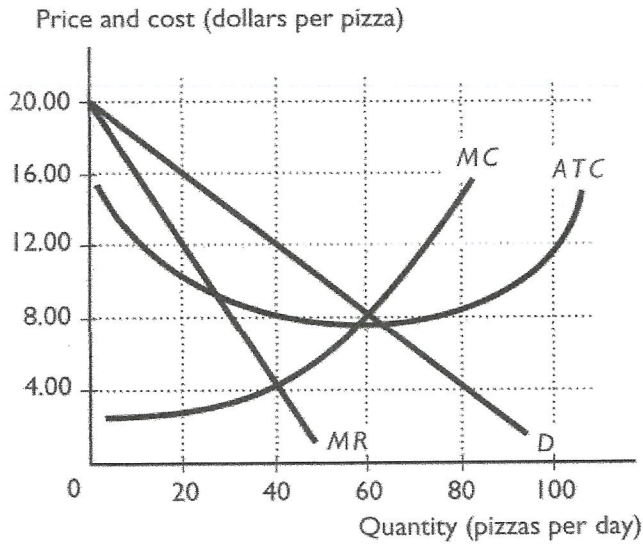


Figure Q2(a): Monopolistic profit maximizing curves

- (i) Identify the profit maximizing output and price. (2 marks)
- (ii) Calculate the total cost (TC), total revenue (TR), and amount of profit (π) earned by the firm. (6 marks)
- (b) State **TWO (2)** advantages of advertisement in the monopolistic market. (2 marks)

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- (c) **Figure Q2(c)** refers to the kinked demand curve facing Firm R in an oligopoly market structure.

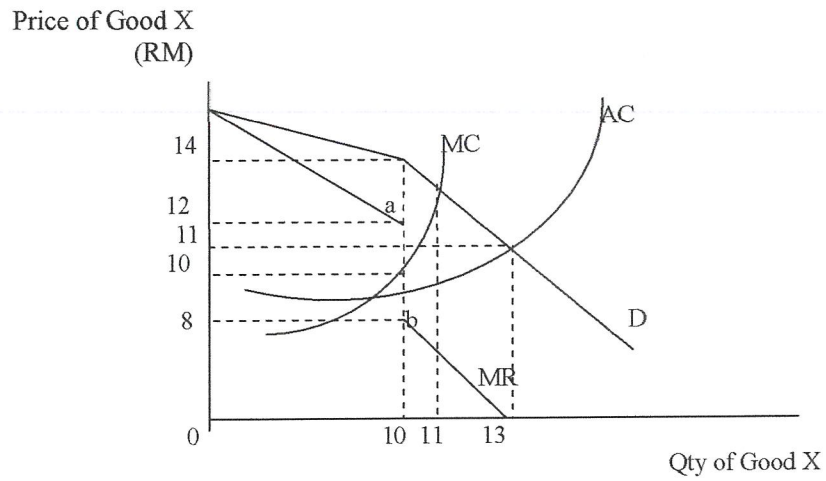


Figure Q2(c): Kinked demand curve and firm equilibrium

- (i) Identify the profit maximizing price and quantity. (2 marks)
- (ii) Calculate the total cost (TC), total revenue (TR), and amount of profit (π) earned by firm R. (6 marks)
- (d) Explain the implication of having a vertical line (a-b) in oligopoly's MR curve. (2 marks)

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Q3 (a) Differentiate the following terminologies:

- (i) Gross Domestic Product (GDP) and Gross National Product (GNP)
- (ii) Nominal GDP and real GDP.

(8 marks)

(b) List **FOUR (4)** types of goods and services omitted from GDP.

(2 marks)

(c) Country N's nominal and real GDP from 1957 to 1961 are shown in Table **Q3(c)**.

Table Q3(c): Nominal and real GDP of Country N

Year	Nominal GDP (N\$ billion)	Real GDP (N\$ billion)
1957	615.8	615.8
1958	750.2	722.6
1959	855.0	757.9
1961	890.4	801.7

(i) Compute the GDP deflator for Country N from 1957 to 1961.

(6 marks)

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

(4 marks)

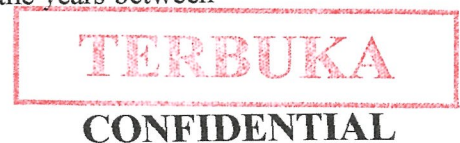
Q4 (a) Hypothetical labor statistics of country XYZ are presented in the following **Table Q4(a)**.

Table Q4(a): Hypothetical labor statistics of country XYZ

Year	Population >16 years old (millions)	Labor force (millions)	Employed (millions)	Unemployed (millions)
2012	105.0	62.2	58.9	3.3
2013	117.2	69.6	65.8	3.9
2014	137.1	82.8	78.7	4.1
2015	167.7	106.9	99.3	7.6

Compute the following based on the information in **Table Q4(a)**:

(i) Labor force participation rate in each of the years between 2012 and 2015.



(ii) Unemployment rate in each of the years between 2012 and 2015. (4 marks)

(b) Discuss the **THREE (3)** major types of unemployment. (6 marks)

(c) Population of Indah Pura has two items in their basket of consumption. The items and their related details are shown in **Table Q4(c)**. The base year is 2014.

Table Q4(c): Population of Indah Pura basket of consumption

Item	2014		2015		2016	
	Quantity	Price (RM)	Quantity	Price (RM)	Quantity	Price (RM)
Transport	130	5.00	220	6.00	310	8.00
Food	500	3.20	550	4.00	300	4.50

Compute:

(i) Cost of each basket from 2014-2016. (3 marks)

(ii) Consumer Price Index for 2014 - 2016 of Indah Pura. (3 marks)

(iii) Inflation rate for the year 2015 and year 2016. (4 marks)

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Q5 (a) Table Q5(a) is the T- Account of Bank Damai Berhad.

Table Q5(a): T-Account of Bank Damai Bhd

Asset		Liability	
Reserve	RM 150	Deposit	RM1,000
Loans	RM 850		
Total	RM1000	Total	RM1,000

Compute:

- (i) Required Reserve Ratio
- (ii) Money multiplier
- (iii) Amount of money created

(6 marks)

(b) Three important tools of monetary policy are required reserve ratio, discount rate, and open market operation. Country A is facing a prolonged inflationary trend.

Explain the methods through which the Central Bank would use the above tools of monetary policy to overcome inflation.

(6 marks)

(c) **PUTRAJAYA:** The government has collected RM44 billion from the Goods and Services Tax (GST) in 2017, Prime Minister Datuk Seri Najib Razak announced Wednesday.

Najib said the GST collections last year was higher compared to RM41 billion in 2016.

"Although I have said while tabling the 2018 budget that the GST collections for this year is targeted at RM43.8 billion, I have been told by the Customs Department that the collections may even reach RM45 billion.

"With a strong revenue base, we can redistribute income.

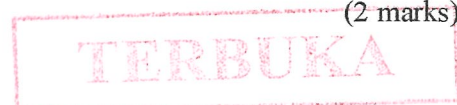
"And, I want to assure the people that the government has no plan to raise the GST rate," he said at the World Customs Day celebration here (Azura Abas, 2018).

(<https://www.nst.com.my/news/nation/2018/01/328375/customs-department-collects-rm44bil-gst-2017-najib>, accessed on 1/4/2018)

Analyze the effects of GST to the economy on the following points:

- (i) Direct or indirect taxes

(2 marks)



- (ii) Effects on disposable income (2 marks)
- (iii) Contractionary or expansionary fiscal policy (2 marks)
- (iv) Tax multiplier (3 marks)
- (v) Effects on Aggregate Demand (4 marks)

END OF QUESTIONS

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