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Universiti Tun Hussein Onn Malaysia

**UNIVERSITI TUN HUSSEIN ONN MALAYSIA**

**FINAL EXAMINATION  
SEMESTER II  
SESSION 2018/2019**

COURSE NAME : PRINCIPLES OF ECONOMICS /  
ECONOMICS

COURSE CODE : BPA12403 / BPA10103

PROGRAMME CODE : BPA / BPB / BPP

EXAMINATION DATE : JUNE / JULY 2019

DURATION : 3 HOURS

INSTRUCTION : ANSWER ALL QUESTIONS

THIS QUESTION PAPER CONSISTS OF EIGHT (8) PAGES

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**Q1 (a)** Define:

- (i) Average Product of Labour
- (ii) Law of Diminishing Marginal Return

(4 marks)

(b) The following **Table Q1(b)** shows the total product schedule for a widget. Each unit of labor costs RM25 and the total fixed cost of capital is RM100. In the table, *TFC* is the total fixed cost, *TVC* is the total variable cost, *TC* is the total cost, *AVC* is the average fixed cost, *AVC* is the average variable cost, *ATC* is the average total cost, and *MC* is the marginal cost.

**Table Q1(b) : Total Product and Cost Schedule for a widget per day**

Quantity of labor	Total product	TFC	TVC	TC	AVC	ATC	MC
0	0	100	0	100	xx	xx	xx
1	5	100	25	125			
2	15	100	50	150			
3	35	100	75	175			
4	50	100	100	200			
5	60	100	125	225			
6	65	100	150	250			

(i) Calculate the *AVC*, *ATC* and *MC*.

(6 marks)

(ii) Plot the *AVC*, *ATC* and *MC* curves in a graph paper.

(3 marks)

(iii) Identify the quantity of Total Product (TP) at efficient level of production.

(1 mark)

- (c) **Table Q1(c)** shows the long-run total cost information for Firms A, B, C and D in a hypothetical industry. The cost currency is in Ringgit Malaysia (RM).

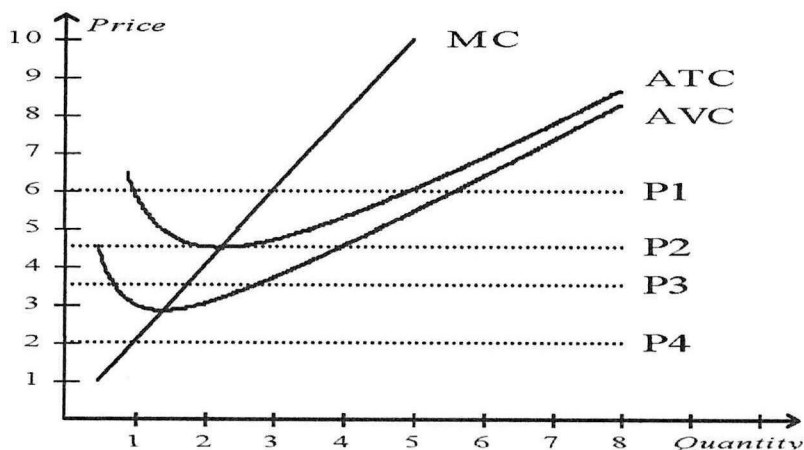
**Table Q1(c): Long-run total cost information**

Quantity	1	2	3	4	5	6	7
Firm A	210	340	490	660	850	1,060	1,290
Firm B	180	350	510	660	800	930	1,050
Firm C	120	250	390	540	700	870	1,050
Firm D	150	300	450	600	750	900	1,050

Explain:

- (i) Which firm experiences constant return to scale over the entire range of output. (2 marks)
- (ii) Which firm experiences diseconomies of scale over the entire range of output. (2 marks)
- (iii) Which firm experiences economies of scale over the entire range of output. (2 marks)

- Q2 (a)** Damai Biru Sdn. Bhd. is a firm selling homogenous product in a competitive market. It has the following cost curves:



**Figure Q2 : various cost curves in a competitive market**

- (i) Calculate the amount of profit earned by the firm if the price is P2, which is RM4.5 per unit.

(2 marks)

- (i) Analyse whether the firm should continue its operation or to shut down as the price falls to P4, which is RM2 per unit.

(4 marks)

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

Explain what is meant by allocative efficiency and productive efficiency.

(4 marks)

- (b) (i) 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 would advertising benefits the firm in its cost and production.

(4 marks)

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

(6 marks)

- Q3 (a)** According to the circular flow diagram, Gross Domestic Product (GDP) can be computed as either the revenue firms receive from the sales of goods and services or the payments they make to factors of production.

Explain why an economy's income must equal to its expenditure in GDP calculation.

(2 marks)

- (b) The following **Table Q3** shows component of Gross Domestic Product (GDP) in ABC country for the year 2018.

**Table Q3: Gross Domestic Product of ABC country in 2018**

<b>Component of Gross Domestic Product (GDP)</b>	<b>RM million</b>
Consumption on durable and non-durable goods	1,600
Consumption of services	700
Residential and non-residential investment	860
Change in inventories	- 50
Corporate profit	610
Transfer payment to household from Government	150
Government pay salaries to civil servants	320
Export	370
Import	230
Receipt of factor income from the rest of the world	840
Payment of factor income to the rest of the world	770

Calculate:

- (i) Gross Domestic Product (GDP) of ABC country using the expenditure approach. (8 marks)
- (ii) Calculate the Gross National Product of ABC country in 2018. (3 marks)
- (c) GDP is measured in both the nominal and real terms. Nominal GDP is the value of the final goods and services produced in a given year expressed in the prices of that same year, whereby real GDP is expressed in the prices of the base year.
- (i) State the **THREE (3)** main purposes of estimating real GDP. (3 marks)

(ii) Explain why GDP is not an accurate measure of the economic growth of a country.

(4 marks)

**Q4 (a)** Discuss the following types of unemployment:

- (i) Frictional unemployment.
- (ii) Structural unemployment
- (iii) Cyclical unemployment

(6 marks)

(b) The following **table Q4(b)** presents principal statistics of labour force in Johor, for the years of 2016-2017.

**Table Q4(b): Statistics of labour force, Johor 2016-2017**

Year	('000)				(%)	
	Labor force	Employed	unemployed	Non labour force	Labour force participation rate	Un-employment rate
2016	1639.1	1580.6	58.5	820.7		
2017	1671.7	1614.7	57.0	823.3		

Source : Malaysia Labour Statistics, 2018.

Given Formula:

(i) Labor force participation rate = (labor force / working age population) x 100

(ii) Unemployment rate = (number of people unemployed/ labor force) x 100

Compute:

(i) Labour force participation rate and in Johor for the years of 2016 and 2017. (2 marks)

(ii) Unemployment rate in Johor for the years of 2016 and 2017. (2 marks)

- (c) (i) The CPI is one of several alternative *price level* measures. Its purpose is to measure the cost of living. However, CPI is possibly a biased measure.

Explain any **TWO (2)** sources of bias in the CPI.

(4 marks)

- (ii) **Table Q4 (c)** shows the cost of the CPI basket in the year of 2010 and 2016. The base year is 2010.

**Table Q4(c): Cost of CPI basket in 2010 and 2016**

<b>(a) The cost of the CPI market basket at base period prices: 2010</b>			
<b>CPI market basket</b>			<b>Cost of CPI Basket (RM)</b>
item	Quantity	Price (RM)	
Orange	10	RM 1 each	10
Haircuts	5	RM 8 each	40
Cost of CPI market basket at base period price			50
<b>(b) The cost of the CPI market basket at current period price : 2016</b>			
<b>CPI market basket</b>			<b>Cost of CPI Basket (RM)</b>
item	Quantity	Price (RM)	
Orange	10	RM2 each	20
Haircuts	5	RM 10 each	50
Cost of CPI market basket at base period price			70

*Formula :*

$$CPI = (\text{basket cost at current period price} / \text{basket cost at base period price}) \times 100$$

$$\text{Inflation rate} = [(CPI_2 - CPI_1) / CPI_1] \times 100$$

Calculate:

- (i) CPI for 2010.
- (ii) CPI for 2016.
- (iii) Calculate the inflation rate in 2014.

(6 marks)

**Q5 (a)** Assume in Country G the total holdings of banks are as follows:

required reserves = \$45 million  
excess reserves = \$15 million  
deposits = \$750 million  
loans = \$690 million

- (i) Demonstrate the T-account balances if these are the only assets and liabilities in the economy. (3 marks)
- (ii) Compute the change in the money supply if the central bank changes the reserve requirement ratio to 2%. (4 marks)
- (iii) Analyse whether the 2% changes in reserve requirement ratio in Q5(a)(ii) are for expansionary or contractionary monetary policy. (2 marks)
- (b) (i) Explain the difference between discretionary fiscal policy and the automatic fiscal policy. (4 marks)
- (ii) The government has decided to cut its expenditure, and hence the government spending reduced by RM1 billion. The marginal propensity to consume is 0.8.  
Calculate the effect of the RM1 billion government spending reduction to the aggregate demand in the economy. (4 marks)
- (c) Money is any commodity or token that is generally accepted as a means of payment. List and define the three functions of money. (3 marks)

- END OF QUESTIONS -