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UNIVERSITI TUN HUSSEIN ONN MALAYSIA

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

COURSE NAME : PRINCIPLES OF ECONOMICS /
ECONOMICS

COURSE CODE : BPA12403/BPA10103

PROGRAMME CODE : BPA /BPC/BPD

EXAMINATION DATE : DECEMBER 2018 / JANUARY 2019

DURATION : 3 HOURS

INSTRUCTION : ANSWER ALL QUESTIONS

THIS QUESTION PAPER CONSISTS OF EIGHT (8) PAGES

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- Q1 (a)** Fatimah used to earn RM25,000 a year selling real estate, but she now sells greeting cards. The normal profit return to entrepreneurship in the greeting cards industry is RM14,000 a year. Over the year, Fatimah bought RM10,000 worth of cards from manufacturers and sold them for RM58,000. Fatimah rents a shop for RM5,000 a year and spends RM1,000 on utilities and office expenses. Early of the year Fatimah bought a cash register for RM2,000 with funds from her savings account. Her bank pays saving interest at 3 percent a year on savings accounts. At the end of the year, Fatimah was offered RM1,600 for her cash register.

Calculate:

- (i) Explicit costs (3 marks)
 - (ii) Implicit costs (4 marks)
 - (iii) Economic profit (2 marks)
- (b) Ahmad owns a small Peruvian coffee bean farm. Ahmad pays RM300 a month as rent and spends RM300 to buy equipment. He pays each worker RM100 per month. Suppose labor is the only variable cost. **Table Q1** shows the total product and total cost of Ahmad’s coffee farm given the labor input.

Table Q1: Product and cost of Ahmad’s coffee farm

No. of labors	Total Product (’00 kg)	Total cost (RM)
0	0	600
1	1	700
2	2	800
3	6	900
4	10	1000
5	12	1100
6	13	1200

Calculate:

- (i) The marginal product of labour (MP_L) average product of labour (AP_L) for Ahmad’s coffee farm. (6 marks)
- (ii) The average total cost (ATC) of Ahmad’s farm. (3 marks)

- (iii) Determine the level of output at productive efficiency (the lowest ATC).
(2 marks)

- Q2 (a)** Lisa's Lawn Company is a lawn-mowing firm in a perfectly competitive market for lawn-mowing services. **Table Q2(a)** sets out Lisa's costs and revenue at the market price of RM30 a lawn:

Table Q2(a): Costs and Revenues of Lisa's Lawn Company

Quantity (lawn per hour)	Total Revenue (RM)	Marginal Revenue (RM)	Total Cost (RM)	Marginal Cost (RM)
0	0	0	30	0
1	30	30	40	10
2	60	30	55	15
3	90	30	75	20
4	120	30	100	25
5	150	30	130	30
6	180	30	165	35

- (i) Identify the quantity of lawn per hour that maximised the profit earned by the firm.
(2 marks)
- (ii) Calculate the amount of Lisa's maximum profit in the short run.
(2 marks)
- (iii) In the long run a firm in perfect competition makes normal profit which is equal to zero.

Explain graphically how free entry and exit brings the economic profit back to normal profit.

(6 marks)

- (b) Wani’s Diamond is a single-price monopoly. Table Q2(b) shows the demand schedule, revenue and cost for Wani’s Diamond in a short run.

Table Q2(b): Demand schedule, revenue and cost for Wani’s Diamond

Price (RM per carrat)	Quantity (carrat per day)	Total Revenue (RM per day)	Total Cost (RM per day)	Marginal Revenue (MR)	Marginal cost (MC)
2200	0	0	800		
2000	1	2000	1600		
1800	2	3600	2600		
1600	3	4800	3800		
1400	4	5600	5200		
1200	5	6000	6800		

- (i) Calculate Marginal Revenue (MR) and Marginal cost (MC) of the firm. (6 marks)
- (ii) Calculate the amount of maximum profit. (2 marks)
- (iii) Define price discrimination. (2 marks)



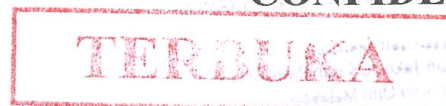
- Q3** (a) Explain the **FOUR (4)** components of GDP by expenditure approach . (8 marks)
- (b) A hypothetical economy produces only fun and food in her GDP. Table **Q3** shows the prices and the quantities of fun and food produced in 2016 and 2017. The base year is 2016.

Table Q3: GDP of a hypothetical economy

GDP data for 2016		
Item	Quantity	Price (RM)
Fun	40	RM2
Food	60	RM3
GDP data for 2017		
Item	Quantity	Price(RM)
Fun	35	RM3
Food	65	RM2

Calculate :

- (i) Nominal GDP in 2016 and 2017 (4 marks)
- (ii) Real GDP in 2016 and 2017 (4 marks)
- (iii) Percentage increase in real GDP in 2017 (2 marks)
- (iv) List **TWO (2)** of the main purposes of real GDP estimation. (2 marks)



- Q4 (a)** A hypothetical XYZ island has total population of 25,000 people. The details on labour market as of December 2018 is shown in **Table Q4(a)**.

Table Q4(a): Labour market information of XYZ Island

Item	December 2018
Total Population	25,000
Adult population	22,000
Employed	15,000
Unemployed	2,000
Not in Labour Force	5,000

Compute:

- (i) Unemployment rate
- (ii) Labour-force participation rate.
- (iii) Employment-population rate.
- (iv) Labour force participation rate

(8 marks)

- (b) Survey from consumers in a hypothetical country Y has identified a fixed basket of goods for consumers, from 2015 - 2016 consists of 10 plates of food and 5 units of book. Price schedule of the basket are shown in **table Q4(c)**. 2015 is the base year.

Table Q4(c): Price of goods

Year	Price of a plate of food (RM)	Price of a unit of book (RM)
2015	5	10
2016	6	12

Given :

- $CPI = (\text{cost of basket at current year} / \text{cost of basket in base year}) \times 100$
- $\text{Inflation rate} = [(CPI_2 - CPI_1) / CPI_1] \times 100$

Calculate:

- (i) Consumer Price Index (CPI) in each year (2015 and 2016).

(4 marks)

- (ii) Inflation rate for the year of 2016.

(2 marks)

- (iii) Analyze **TWO (2)** of the facts that the CPI is not a perfect measure of the cost of living.

(6 marks)



Q5 (a) Income tax affect the supply of labour and real wage rate of labour. **Figure Q5** shows the effects of income tax on the number of labour supply and the real wage rate of labour. LD_0 is labour demand curve, LS_0 is labour supply curve before tax, and LS_1 is labour supply curve after tax.

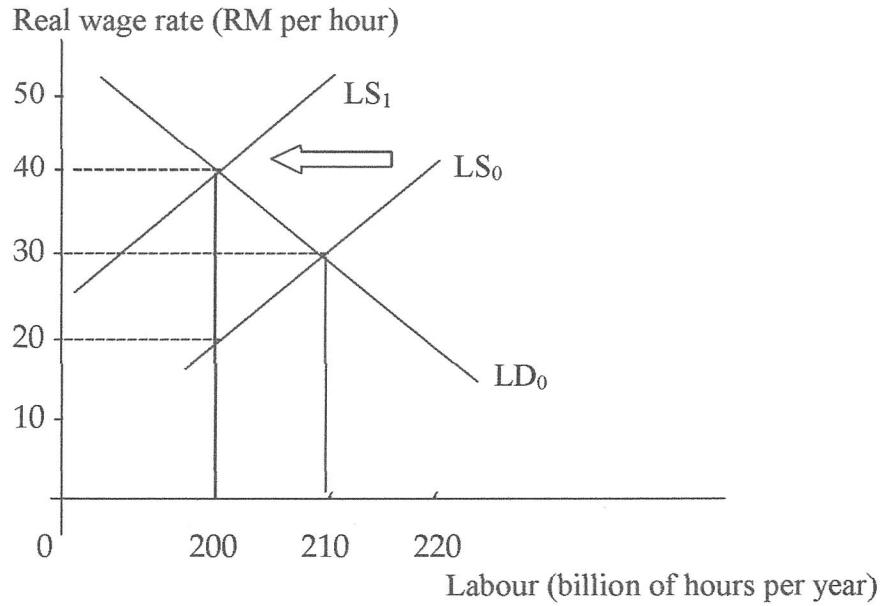


Figure Q5 : Income tax in the labour market

Determine the following based on the information given in **figure Q5**:

- (i) Equilibrium hours of labour supply and real wage rate per hour before tax.
- (ii) Equilibrium hours of labour supply and real wage rate per hour after tax.
- (iii) Real wage rate per hour paid by firm and real wage rate per hour received by workers.
- (iv) Amount of tax wedge between the wage rate that firms pay and workers receive after tax.

(8 marks)



- (b) Bank Negara Malaysia (BNM) or Central Bank most important tasks are to influence the interest rate and regulate the amount of money circulating in the country. Among the BNM monetary policy tools are required reserve ratio, discount rate, and open market operation. Assume Malaysia is facing the phase of recession in the economy.

Explain the methods through which the Central Bank (BNM) would use the **THREE (3)** tools of the monetary policy to counter economic recession.

(9 marks)

- (c) Money is any commodity or token that is generally accepted as a means of payment.

List the **THREE (3)** functions of money.

(3 marks)

- END OF QUESTIONS -

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