Universiti Tun Hussein Onn Malaysia

UNIVERSITI TUN HUSSEIN ONN MALAYSIA

FINAL EXAMINATION
SEMESTER I
SESSION 2019/2020

COURSE NAME	:	PRINCIPLES OF ECONOMICS
COURSE CODE	:	BPA 12403
PROGRAMME CODE	:	BPC / BPD
EXAMINATION DATE	:	DECEMBER 2019 / JANUARY 2020
DURATION	:	3 HOURS
INSTRUCTION	:	ANSWERS **ALL** QUESTIONS

THIS QUESTION PAPER CONSISTS OF **SEVEN (7)** PAGES

Q1 (a) You are the owner and only employee of a restaurant that sells 'Kurma Daging 30 Hari'. **Table Q1(a)** summarizes your revenue and costs last year.

Table Q1(a): Revenue and Costs of 'Kurma Daging 30 Hari' in 2018

ITEM	RM	RM
Total Revenue		650,000
Cost of raw materials	200,000	
wages	120,000	
Rent	24,000	
Your forgone wages	75,000	
Your forgone interest	15,000	
Economic depreciation	30,000	
Normal profit	100,000	

Calculate the following:

(i) The opportunity costs of the firm.

(ii) Your accounting profit last year.

(iii) Your economic profit last year.

(6 marks)

(b) A lawn service company has the following **Table Q1(b)** production possibilities. With one, two, three, and four workers, the company can earn 4, 9, 12, and 14 lawns per day, respectively.

Table Q1(b): Production possibilities schedules

No. of workers	Total product (lawns per day)
1	4
2	9
3	12
4	14

(i) Calculate the Marginal Product and Average Product for each labour.

(4 marks)

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

(4 marks)

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

(1 mark)

(c) The following **Figure Q1(c)** shows information on Total Variable Cost of producing basketball. The total fixed costs are RM50.

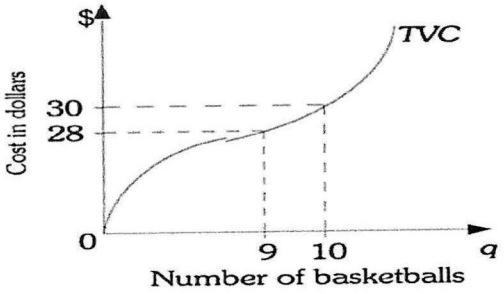

Figure Q1(c): Cost of production

Compute the following:

(i) Marginal cost of the 10th basketball.
(ii) Average total cost of producing 10 basketballs.
(iii) Total cost of producing 10 basketballs
(iv) Identify whether the firm is operating in the long run or short run.

(4 marks)

Q2 (a) State **TWO (2)** basic characteristics of firms operating in perfectly competitive market.

(2 marks)

(b) Discuss with the help of graphical presentation and empirical example the situation that would cause a firm in perfectly competitive market to short-run shut-down.

(6 marks)

(c) State **TWO (2)** conditions for the firms that operate in perfectly competitive market are most efficient compared to the imperfect market structure.

(2 marks)

(d) Fun Water Park is considering practicing price discrimination in respect of its customers who are either members or non-members. Assume that the marginal cost (MC) for both groups of customers is constant. The **Figure Q2(a)** and **Q2(b)** shows the markets for the Fun Water Park.

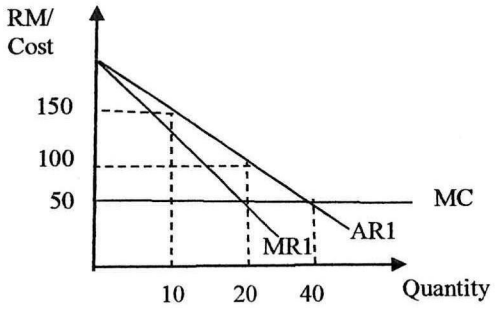

Figure Q3(a): Members market

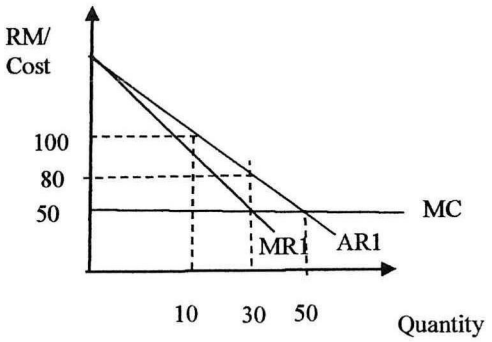

Figure Q3(b): non-members market

(i) Determine the price and quantity to profit maximizing in each market.

(4 marks)

(ii) Calculate the profit for both members market, and non-members market, given that MC is equal to AC.

(6 marks)

(iii) State **TWO (2)** requirements for the practice of price discrimination.

(2 marks)

Q3 (a) Explain the **TWO (2) ONLY** from four components of Gross Domestic product (GDP) based on the expenditure approach.

(4 marks)

(b) Table **Q3(b)** shows hypothetical GDP data for country A.

Table Q3(b): Hypothetical GDP data for country A

	Billions of Dollars	
Personal consumption expenditures (C)	10,089.1	
Durable goods		1,035.0
Nondurable goods		2,220.2
Services		6,833.9
Gross private domestic investment (I)	1,628.8	
Nonresidential		1,388.8
Residential		361.0
Change in business inventories		−120.9
Government consumption and gross investment (G)	2,930.7	
Federal		1,144.8
State and local		1,786.9
Net exports ($EX - IM$)	−392.4	
Exports (EX)		1,564.2
Imports (IM)		1,956.6

(i) Calculate Gross Domestic Product (GDP) using the expenditure approach based on the above **Table Q3(b)**.

(4 marks)

(c) Explain the **TWO (2)** reason using real GDP calculation is based on the price level rather than output level.

(4 marks)

(d) State the **ONE (1)** problem associated with using nominal GDP to measure a country's performance over time.

(2 marks)

(e) **Table Q3(e)** shows the nominal GDP and the associated price level from 2011 – 2016 for Country W.

Table Q3(e): Nominal GDP and GDP deflator of Country W from 2011 - 2016

Year	Nominal GDP (W billions)	GDP deflator 2001 = 100
2011	235.2	100
2012	428.2	128.1
2013	816.4	135.9
2014	1359.3	149.5
2015	2249.7	172.2
2016	3401.6	203.8

(i) Compute real GDP from 2011 – 2016 for Country W.

(6 marks)

Q4 (a) Define the following type of unemployment:

(i) Frictional unemployment
(ii) Structural unemployment

(4 marks)

(b) The relationship between the unemployment rate and the rate of inflation can be shown by the short-run Phillips Curve.
Explain using a graph how does the Phillips Curve indicate about the trade-off between inflation and unemployment.

(4 marks)

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

Table Q4(c) : Hypothetical Labor statistics of country B

Year	Population 16 years old and above (millions)	Labor force (millions)	Employed (millions)	Unemployed (millions)
2015	117.2	69.6	65.8	3.9
2016	137.1	82.8	78.7	4.1
2017	167.7	106.9	99.3	7.6
2018	189.2	125.8	118.8	7.0

Based on the information given in **Table Q4(c)**:

(i) Calculate the labor force participation rate in each of the years between 2015 - 2018.

(2 marks)

(ii) Calculate unemployment rate in each of the years between 2015 - 2018.

(2 marks)

(d) Survey from consumers in Country Y has identified a fixed basket of goods for consumers, from 2016 - 2018 consists of 5 plates of rice and 3 bowl of tomyam as shown in the following **Table Q4(d)**.

Table Q4(d): Price of goods

Year	Price of a plate of chicken rice (RM)	Price of a bowl of tomyam (RM)
2016	4	3
2017	5	4
2018	6	5

Based on the information given in **Table Q4(d)**:

Compute the following:

(i) The cost of the basket of goods each year from 2016 to 2018.

(3 marks)

(ii) The Consumer price Index in each year by taking 2016 as a base year.

(3 marks)

(iii) The inflation rate for the year 2017 and 2018.

(4 marks)

Q5 Monetary policy is the actions of the central bank to manage the money supply and interest rates to achieve its macroeconomic policy goals.

(a) **Figure Q5(a)** shows the graph of the money market where MS represents the supply of money curve and MD represents the demand for money curve.

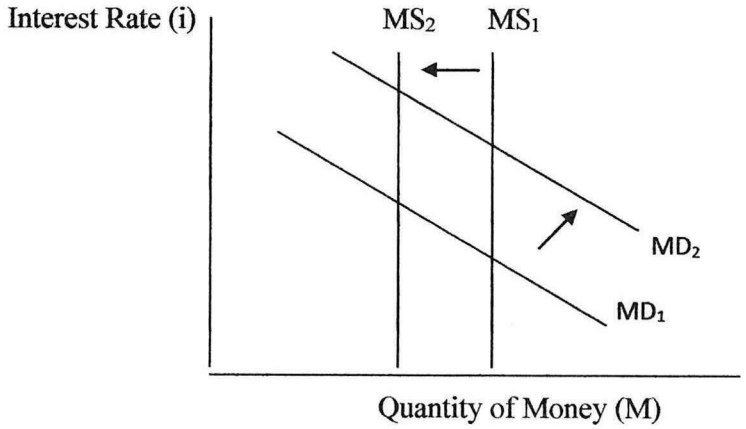

Figure Q5(a): Money market equilibrium

(i) Describe the situation where the Central Bank reduces money supply and shifts money supply curve from MS_1 to MS_2.

(2 marks)

(ii) Explain the effect to interest rate when the demand for money increase in the market and money demand curve shifts from MD1 to MD2. Assume the money supply curve remains at MS1.

(4 marks)

(b) Explain **TWO (2)** effects of contractionary fiscal policy on the demand-side of the economy.

(4 marks)

(c) Assume a customer deposit RM4,000 in an account at a branch of Bank of Malaysia. There is no excess reserve at the time of deposit and the required reserve ratio is 20%.

(i) Compute the initial impact of the deposit on Bank of Malaysia's balance sheet using a T-account.

(3 marks)

(ii) Supposed a person took out the loan in Q5(c)(i) and deposit it in a branch of Citibank.
Compute the impact of this transaction on the Bank of Malaysia and Citibank's balance sheets.

(4 marks)

-END OF QUESTIONS –