



**UNIVERSITI TUN HUSSEIN ONN
MALAYSIA**

**FINAL EXAMINATION
SEMESTER II
SESSION 2009/2010**

SUBJECT NAME : ECONOMICS
SUBJECT CODE : BPA 1013
COURSE : 1 BPA / 1 BPB
EXAMINATION DATE : APRIL / MAY 2010
DURATION : 2 HOURS 30 MINUTES
INSTRUCTION : PART A
ANSWER **ALL** QUESTIONS

PART B
ANSWER **TWO (2)** QUESTIONS
ONLY OUT OF FIVE (5) QUESTIONS

THIS QUESTION PAPER CONSISTS OF 6 PAGES

PART A (50 marks)

Q1 Gross Domestic Product (GDP) is measuring the market value of all final goods and services produced within a country in a given period of time.

(a) Explain the reasons some of final goods and services are not included in the definition of GDP. (5 marks)

(b) Natrah's salaries for the year is higher than last year.
Explain whether Natrah's real income has increased this year. (5 marks)

(c) State the immediate effect of each of the following events on Malaysia's GDP and its components.

(i) Chua buys an Italian sports car. (2.5 marks)

(ii) Hambali buys domestically produced tools for his construction company. (2.5 marks)

(d) The real GDP for Malaysia is substantially higher today than it was 60 years ago.
Explain its effect towards the well-being of Malaysian residents. (10 marks)

Q2 The aggregate demand curve shows the quantity of goods and services that household, firms, the government and customers abroad want to buy at each price level. The aggregate supply curve shows the quantity of goods and services that firms produced and sell at each price level.

- (a) State and explain **THREE (3)** factors that would shift the aggregate demand curve to the right. (9 marks)
- (b) State and explain **THREE (3)** factors that would shift the long-run aggregate supply curve to the right. (9 marks)
- (c) Explain why the possible long-run trend in real Gross Domestic Product (GDP) is upward trend by relating it with given business cycles. (7 marks)

PART B (50 marks)

- Q3 (a) In a simple economy, people consume only two types of goods, food and clothing. The market basket of goods used to compute the Consumer Price Index (CPI) consists of 50 units of food and 10 units of clothing.

Table Q3: Basket of Food and Clothing

	Food	Clothing
2008 price per unit	RM4	RM10
2009 price per unit	RM6	RM20

- (i) Calculate the percentage of increase in the price of food and in the price of clothing. (4 marks)
- (ii) Calculate the percentage increase in the CPI. (4 marks)
- (iii) Discuss whether the price changes affect all consumers to the same extent. (7 marks)
- (b) In some ways, the unemployment that rises from efficiency wages is similar to the unemployment that arises from minimum wage laws and union.
- (i) Define the theory of efficiency wages. (2 marks)
- (ii) List **FOUR (4)** reasons that employers or firms might pay efficiency wages. (8 marks)

- Q4 The economy's aggregate demand curve and the long run aggregate are describing the economy's long run trends. According to classical macroeconomics theory, changes in the money supply affect nominal variables but not real variables.
- (a) Illustrate the classical analysis of growth and inflation with aggregate demand and long-run aggregate supply curves. (10 marks)
 - (b) Explain the reason for an increase in the expected price level shifts in the aggregate supply curve by using sticky-wage theory. (5 marks)
 - (c) Suppose that a decrease in the demand for goods and services push the economy into recession.
 - (i) Explain its effects to the price level. (5 marks)
 - (ii) Explain how the economy will eventually gets back to the natural rate of output if the government does nothing. (5 marks)
- Q5 Monetary policy is regarding the setting of quantity of money that is made available in the economy called the money supply. Central bank will oversee the banking system and regulate the quantity of money in the economy.
- (a) Explain the reason banks can influence the money supply if the required reserve ratio is less than 100 percent. (9 marks)
 - (b) (i) State **TWO (2)** things that limit the precision of the Government control of the money supply. (4 marks)
 - (ii) Explain how each limits can be controled. (6 marks)
 - (c) XYZ Bank Berhad which has RM5,000 of deposits, a required reserve ratio of 10 percent, and excess reserves of RM300.
Construct a simple T-account (balance sheet) for XYZ Bank Berhad. (6 marks)

Q6 The government can influence the behavior of the economy not only with monetary policy but also with fiscal policy. Fiscal policy refers to the government's choices regarding the overall level of government purchases and taxes.

(a) Malaysia government spends more on a missile defense program.

Describe the effects of the government action to aggregate demand by the presence of the multiplier, crowding-out, taxes, and investment accelerator effects.

(10 marks)

(b) Suppose that the government increases expenditures by RM150 billion while increasing taxes by RM150 billion. The MPC is 0.80 and there are no crowding out or accelerator effects.

(i) Calculate the combined effects of government expenditures and taxes changes.

(10 marks)

(ii) Explain the reason of the combined effects change not equal to zero.

(5 marks)

Q7 In order to conduct international transactions between countries with different currencies, it is necessary to exchange one currency for another.

(a) State the difference between the nominal exchange rate and the real exchange rate.

(6 marks)

(b) Money supply growth continues to be higher in Singapore than it is in Malaysia.

Explain its effect on our purchasing-power parity and its implications to the real and to the nominal exchange rate.

(10 marks)

(c) The Malaysian government institutes a "Buy Malaysian Products" campaign, in order to encourage spending on domestic goods.

Explain campaign effect on the Malaysian trade balance.

(9 marks)

END OF QUESTION PAPER