

# FINAL EXAMINATION

SESSION: JANUARY – MAY 2012

SUBJECT : PRINCIPLES OF ECONOMICS  
SUBJECT CODE : AED 1153  
COURSE CODE : DMB/DSB/DFI  
SEMESTER : 1/3/2  
DURATION : 3 HOURS  
DATE : 17 MAY 2012

### *Instructions to candidates*

- (a) Answer ALL questions in Part A and Part B.
- (b) Answer any THREE (3) questions in Part C.
- (c) Your answers should be written in blue or black ballpoint. Pencil may be used only for graphs, charts, diagrams, etc.
- (d) Candidates may use calculators.

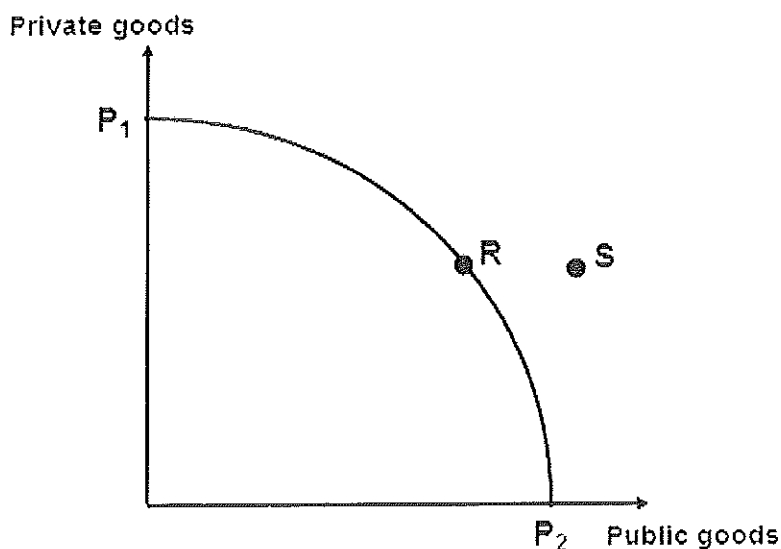
*This question paper consists of 9 pages excluding the front page*



**PART A: MULTIPLE CHOICE (20 Marks)**

Please answer in the provided answer sheets.

1.



An economy with an initial production possibility curve P<sub>1</sub>P<sub>2</sub> producing private goods and public goods is able to expand output from point R to point S if

- A. It reallocates resources from private to public goods.
  - B. It pursues policies of full employment.
  - C. It improves the existing level of technology.
  - D. It fully utilizes the resources efficiently.
2. The demand for good A rises as the price of good J falls due to a decrease in the production costs. Good A can be described as
- A. An inferior good.
  - B. A Giffen good.
  - C. A substitute good.
  - D. A complementary good.
3. The main difference between a command economy and a mixed economy is that in a command economy
- A. The state provides both public and private goods
  - B. There is both a public and the private sector
  - C. Government will intervene if it sees necessary
  - D. There is freedom of enterprise



4. Which of the following will cause the demand curve of chicken to shift to the right?
- A. A rise in the price of chicken
  - B. A rise in the number of chicken sellers
  - C. A fall in the price of beef
  - D. A successful advertising campaign by the poultry industry
5. When income changes, the quantity demanded for a commodity remains the same. Therefore the income elasticity of demand for the good is
- A. Infinity
  - B. Zero
  - C. one
  - D. negative one
6. To determine the type of goods, an economist would estimate \_\_\_\_\_
- A. Price elasticity of demand
  - B. Price elasticity of supply
  - C. Income elasticity of demand
  - D. Cross elasticity of demand
7. The graph of a supply schedule, which has the price elasticity of supply equal to one, will be
- A. A rectangular hyperbola
  - B. Any straight line drawn through the origin
  - C. A straight line drawn from the origin at 45 degrees
  - D. A vertical line
8. A ceiling price placed on a product is a \_\_\_\_\_ that will normally result in \_\_\_\_\_
- A. Maximum price; shortage
  - B. Minimum price; shortage
  - C. Maximum price; surplus
  - D. Minimum price; surplus
9. If the government places a ceiling price of RM1.45 for one kg of sugar, with an equilibrium price of RM2.20, then
- A. There will be a surplus of sugar
  - B. There will be a shortage of sugar
  - C. Either a surplus or a shortage will occur
  - D. During Raya Day, the government will not allow the price of sugar to fall below RM1.20



10. If the quantity demand for used cars falls as income rises, then used cars must be

- A. Normal goods
- B. Inferior goods
- C. Substitute goods
- D. Complementary goods

11. Macroeconomics theory studies the following **except** how

- A. to determine international trade activities
- B. to determine equilibrium income in an economy
- C. to determine the unemployment and inflation rate
- D. to determine the type and quantity of goods to produce

12. The main difference between GDP and GNP is that GDP **excludes**

- A. net income earned abroad
- B. consumption of fixed capital
- C. transfer payments
- D. government purchases

13. If the value of net exports is negative, then

- A. a nation's imports of goods and services exceed its export
- B. a nation's exports of goods and services exceed its imports
- C. the economy's stock of capital goods is decreasing
- D. the value of depreciation is more than the gross private domestic investment

14. Transfer payments refer to payments which are made

- A. As compensation to workers
- B. Without any exchange of goods and services
- C. To workers on transfer from one job to another
- D. To none of the above

15. If Marina writes a cheque drawn on a public bank to purchase a new digital camera, she is employing money as

- A. a store of value
- B. a measure of value
- C. a medium of exchange
- D. is none of the above



16. M2 can be defined as

- A. M1 plus savings accounts
- B. M1 plus all types of deposits
- C. M1 plus narrow quasi money
- D. M1 plus broad quasi money

17. A basket of goods and services costs RM2000 in the base year and the consumer price index is currently 110. This indicates that the average price of the basket of goods and services is now

- A. RM220
- B. RM2000
- C. RM2200
- D. RM2225

18. One reason for people holding money is to pay for unexpected car repairs and other unpredictable expenses. This motive for holding money is called

- A. transaction motive
- B. precautionary motive
- C. speculative motive
- D. emergency motive

19. Accepting deposits from individuals and firms and providing loans to the public are the basic functions of

- A. Commercial banks
- B. Bank Negara Malaysia
- C. Insurance companies
- D. All of the above

20. A commercial bank's liabilities include

- A. Treasury bills
- B. Deposit accounts
- C. Issued and fully paid up share capital
- D. Deposits with Bank Negara Malaysia



**PART B (50 Marks)**

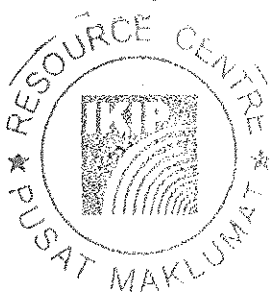
Please answer all questions in the provided answer sheets.

**QUESTION 1 (10 Marks)**

The following is a set of hypothetical production possibilities for a nation

Combination	Food (units)	Clothing (units)
A	0	50
B	10	45
C	20	35
D	30	20
E	40	0

- a) Plot the production possibilities curve and define it. (2 marks)
- b) What is the opportunity cost of the first 20 units of food produced? Define opportunity cost. (2 marks)
- c) Indicate the following in answer (a):
- attainable – F
  - unattainable – S
  - efficient point – P
- (3 marks)
- d) Is the opportunity cost increasing, decreasing, or constant? Explain (2 marks)
- e) On the same diagram as in part (a) above, draw a new PPC to show the effect of economic growth. (1 mark)



## QUESTION 2 (10 Marks)

Figure 1 shows the demand and supply curves for petrol in Country PermaiDesa

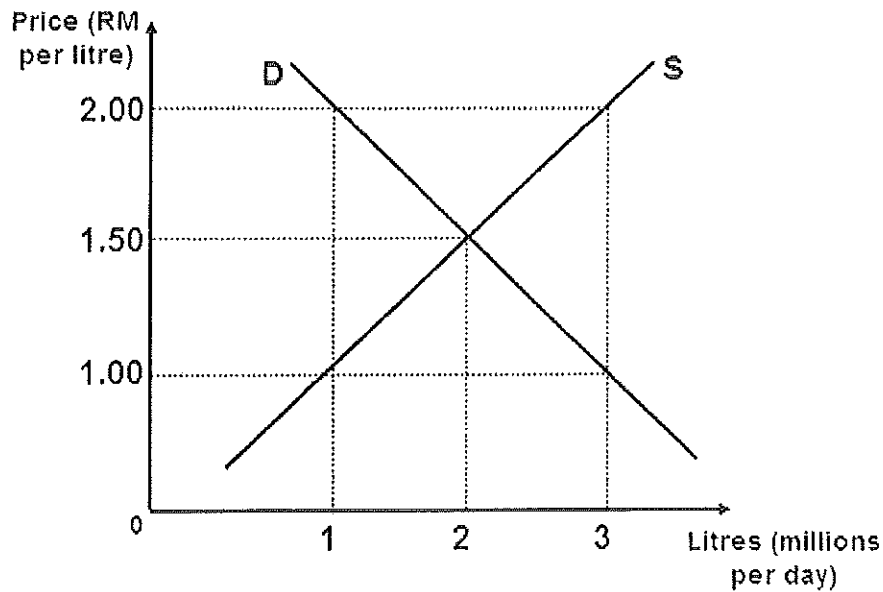


Figure 1: The demand and supply curves for petrol

- a) Based on the figure above, state the equilibrium price and quantity of petrol. (1 mark)
- b) Calculate the price elasticity of demand for petrol when price increases from RM 1.00 to RM 1.50. Is the demand for petrol elastic or inelastic? (2 marks)
- c) If the consumers' income increases from RM 1,000 to RM 1,400 the quantity demanded for petrol increases from 2 million liters to 3 million liters respectively. Determine the income elasticity of demand for petrol and state the type of good. (2 marks)
- d) Assume that the government is concerned about inflation and decides to set the price of petrol at RM 1.00 per liter.
  - i) Is there a shortage or surplus at this price? (1 mark)
  - ii) State the amount of shortage or surplus. (1 mark)
- e) Explain briefly two (2) consequences of government fixing the price at RM 1.00 (3 marks)

**QUESTION 3 (10 Marks)**

The data below shows the value of economic activities of a country in 1999.

ITEMS	RM (millions)
Consumption expenditure	30
Exports	10
Government expenditure	25
Change in stock	-5
Personal income tax	3
Imports	15
Taxes on expenditure	10
Transfer payment	5
Wages and salaries	30
Capital consumption	5
Employees Provident Fund	2
Subsidies	4
Net factor income from abroad	50
Private investment	20

Based on the above information calculate:

- a) Gross Domestic Product at factor cost (2 marks)
- b) Gross National Product at market price (2 marks)
- c) Gross National Product at factor cost (2 marks)
- d) National Income (2 marks)
- e) Disposable Personal Income (2 marks)





**QUESTION 4 (10 Marks)**

The following information is about monetary items for a country in the years 2003 and 2004 and the values are in RM million.

Items	2003	2004
Repurchase agreements (Repo)	13,500.5	15,500.7
Currency in circulation	25,555.5	18,525.8
Fixed deposits with commercial banks and BNM	167,620.7	189,157.2
Foreign currency deposits with commercial banks and BNM	4,125.4	5,225.5
Demand deposits	42,002.3	35,555.8
Deposits placed with other banking institutions	9,444.9	106,000.6
Saving deposits with commercial banks	26,700.4	28,500.4
Negotiable instruments of deposits (NIDs)	25,750.7	22,606.1

- Calculate the percentage change in money supply M1 between 2003 and 2004 (2 marks)
- What is the value of narrow quasi money in 2004? (2 marks)
- Calculate the value of M2 for 2004. (2 marks)
- Calculate the value of M3 for 2004. (2 marks)
- Define broad quasi money. (2 marks)

**QUESTION 5 (10 Marks)**

The table below shows the production possibilities of two countries that only produce two goods before the international trade.

Country	Car	Computer
Japan	28	20
U.S	35	30

- Which country has an absolute advantage in the production of computers? (1 mark)
- Calculate the opportunity cost of producing a unit of car and a unit of computer in each country. (4 marks)
- Identify the comparative advantage gained by Japan and U.S. for each product. (2 marks)
- Which country will import cars? (1 mark)
- Suggest a term of trade where both countries can gain equally from it. (2 marks)

**PART C (30 Marks)**

Answer any **THREE (3)** questions in the provided answer sheets.

**QUESTION 1 (10 Marks)**

Using a production possibilities curve, describe the following concepts:

- |                                    |             |
|------------------------------------|-------------|
| i) Scarcity                        | (2.5 marks) |
| ii) Efficiency and full employment | (2.5 marks) |
| iii) Opportunity cost              | (2.5 marks) |
| iv) Economic Growth                | (2.5 marks) |

**QUESTION 2 (10 Marks)**

- a) What do you understand by the law of demand? (2 marks)
- b) Explain the significance of price elasticity of demand to a seller in terms of his total revenue. (8 marks)

**QUESTION 3 (10 Marks)**

Using the basic circular flow model, explain why the value of businesses' output of goods and services equals the income of households and also equals total expenditure. (10 marks)

**QUESTION 4 (10 Marks)**

Differentiate between the functions of commercial banks and the central bank. (10 marks)

**QUESTION 5 (10 Marks)**

- a) What is the consumer's price index (CPI) and in what way can it be useful? (4 marks)
- b) What are the main problems that economists face when constructing the CPI? (6 marks)

*END OF QUESTION PAPER*

