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UNIVERSITI TUN HUSSEIN ONN MALAYSIA

**FINAL EXAMINATION
SEMESTER II
SESSION 2019/2020**

COURSE NAME : PRINCIPLES OF ECONOMICS /
ECONOMICS

COURSE CODE : BPA12403 / BPA10103

PROGRAMME CODE : BPA / BPB / BPP

EXAMINATION DATE : JUNE / JULY 2020

DURATION : 24 HOURS

INSTRUCTION : ANSWER ALL QUESTIONS

THIS QUESTION PAPER CONSISTS OF **FIVE (5)** PAGES

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Q1 There are three major concerns of macroeconomics which are output growth, unemployment and inflation. Government policy makers would like to have high output growth, low unemployment rate, and low inflation rate. These goals may conflict to one another and that an important point in understanding macroeconomics is understanding these conflicts. Instead of growing at an even rate at all times, economies tend to experience short-term ups and downs in their performance. The technical name for these ups and downs is the business cycle. The main measure of how an economy is doing is aggregate output, the total quantity of goods and services produced in the economy in a given period, indicated by gross domestic product (GDP). Figure Q1 shows upsloping trend line captures output growth over time. However there are deviations from this trend line. These deviations are called economic fluctuations, or ups and downs in the economy. In this business cycle, the economy is in expansion as it moves through the trend line from the trough to the peak. When the economy moves from a peak down to a trough, the economy is in recession.

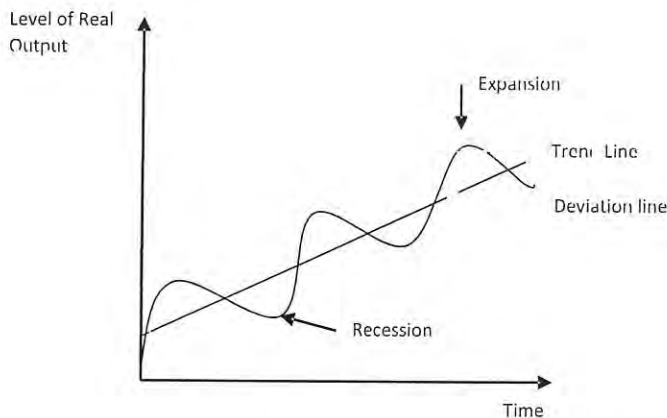


Figure Q1: a typical business cycle

(Karl E. Case, Ray C. Fair, and Sharon M. Oster (2014). Principles of Economics. p442)

- (a) Examine the trend of output growth, unemployment and inflation throughout the business cycle of expansion and recession in the economy. (12 marks)
- (b) Explain the uses of real GDP and its limitations as a measure of the standard of living and welfare of a country. (12 marks)

Q2 Impact Of Pandemic On Economy And Recovery Policy

Bernama Radio Bernama TV 08/04/2020 05:54 PM

By Dr Norlin Khalid

Apr 8, 2020 - KUALA LUMPUR (Bernama) – The coronavirus or COVID-19 outbreak, which is said to have originated at a wet market in Wuhan, China, has spread all over the world like lightning and was categorised as a pandemic by the World Health Organisation (WHO) on March 11. To date, the virus has infected over a million people in more than 180 countries and caused over 80,000 deaths. In Malaysia itself, more than 3,000 people have tested positive for COVID-19 and 63 people have succumbed to it.

According to a study by JP Morgan and projections by WHO, Malaysia's COVID-19 positive cases may peak in mid-April with over 6,000 people infected. The Malaysian government has already taken proactive measures to curb its spread by imposing the Movement Control Order (MCO) from March 18 to 31. However, the MCO period was later extended to April 14. Although the MCO compliance stands at 95 percent, case numbers and deaths are continuing to rise.

The COVID-19 pandemic will certainly have an impact on the global economy, including Malaysia's. COVID-19 has shocked the world economic structure which is now in a state of uncertainty. Recently, the International Monetary Fund announced that the pandemic will cause a global recession this year which could be worse than the one triggered by the subprime mortgage crisis of 2008. The latter was caused by the contraction of liquidity in the banking system in the United States after its real estate bubble burst. The economic crisis ensuing from COVID-19 involves practically all the countries of the world and recovery is expected to take a long time. As long as new positive cases of infection are reported, the economic ecosystem will continue to be disrupted. Studies by the Organisation for Economic Cooperation and Development and World Bank have projected a 2.4 percent contraction in GDP (Gross Domestic Product) growth for the world. Bloomberg reported zero percent or negative GDP growth in the worst-case scenario.

COVID-19 will also have a negative impact on the labour market. The International Labour Organisation has predicted that 25 million workers throughout the world may lose their jobs. Malaysia, which is a small country dependent on other nations such as the US and China, is also expected to feel the pinch. According to a report by the Malaysian Institute of Economic Research, Malaysia's GDP growth will contract by 2.61 percent in 2020. Bank Negara Malaysia (BNM) said in a recent statement that Malaysia's economic growth will be in the -2.0 percent to +0.5 percent range. It also estimated that 951,000 people will lose their jobs. The Malaysian Global Innovation and Creativity Centre predicted that about 40 percent of small- and medium-sized enterprises will have to wind up their operations if the COVID-19 chain of infection persists for three to six months.

In the face of COVID-19, the government must focus on two objectives: one, focus on the necessary protective and safety precautions to break the chain of infection and two, reduce the negative economic effects by implementing recovery policies involving active fiscal and monetary policy targets. The fiscal policy targets are related to government spending and taxation while the monetary policies are related to interest rates, liquidity and control of money supply.

In terms of fiscal policy, the government has announced a series of economic stimulus packages to help individuals and companies affected by the COVID-19 crisis.

On March 19, the RM20 billion economic stimulus package (PRE 2020) was launched to help industries that were directly hit by the first wave of the COVID-19 outbreak, such as hotels and transport companies. After the outbreak entered the second wave and the MCO was imposed, more individuals and businesses were impacted. The supply chain is disrupted because almost the entire sector has stopped working. Some production firms have also stopped operations and worse still, laid-off workers as they are unable to bear the costs. The PRIHATIN package is aimed at easing the financial constraints of the people and businesses. On March 27, the government announced the second RM250 billion economic stimulus package PRIHATIN, which includes the RM20 billion from PRE 2020. Out of RM230 billion, RM22 billion would come from a direct fiscal injection; RM100 billion (moratorium in loan repayments); RM55 billion (guarantees); RM40 billion (withdrawal from Employees Provident Fund); and RM13 billion (various sources). PRIHATIN's main objective is to protect the welfare of the people, support businesses and strengthen the economy. However, the stimulus packages will cause the nation's fiscal position to worsen. To add to that, the global economic crisis has caused oil prices to tumble down to US\$25-US\$30 a barrel. In comparison, oil prices were around US\$60 a barrel when Budget 2019 was tabled. When government revenue from oil drops, it will cause an increase in deficits.

In terms of monetary policy, BNM has cut the Overnight Policy Rate or OPR by 25 basis points to 2.5 percent and reduced the statutory reserve requirement ratio or SRR by 100 basis points to two percent. These cuts will reduce loan costs, improve liquidity and stimulate economic activities. Apart from that, the restructuring and rescheduling of the six-month moratorium will ensure that the capital and financial market returns to stability. It will also help individuals and businesses facing financial problems and liquidity constraints.

It is difficult to predict when the economy will fully recover as long as COVID-19 positive cases continue to rise and no vaccines are discovered to treat the disease.

Nevertheless, the government's fiscal and monetary policies complement one another and will help to revive the economy by increasing aggregate demand such as public and private consumption and investment. This will help to stimulate economic growth through the multiplier effect and reduce the hike in the unemployment rate.

<https://www.bernama.com/en/features/news.php?id=1829686>

- (a) Examine the impact of COVID 19 pandemic on the Malaysian economy from the aspects of unemployment and the wages of labor.

(8 marks)

- (b) To reduce the negative economic effects of COVID-19 pandemic, the government is implementing recovery policies involving active fiscal and monetary policy targets. The fiscal policy targets are related to government spending and taxation while the monetary policies are related to interest rates, liquidity and control of money supply.

Analyze the implementation of expansionary fiscal policy and monetary policy to stimulate aggregate demand (AD) in the economy during economic recession.

(18 marks)

- END OF QUESTIONS -