



UTHM

Universiti Tun Hussein Onn Malaysia

UNIVERSITI TUN HUSSEIN ONN MALAYSIA

**FINAL EXAMINATION
SEMESTER II
SESSION 2023/2024**

COURSE NAME : PRINCIPLES OF ECONOMICS

COURSE CODE : BPA 12403

PROGRAMME CODE : BPB / BPD

EXAMINATION DATE : JULY 2024

DURATION : 3 HOURS

INSTRUCTIONS :

1. ANSWER ALL QUESTIONS
2. THIS FINAL EXAMINATION IS CONDUCTED VIA
 - Open book
 - Closed book
3. STUDENTS ARE **PROHIBITED** TO CONSULT THEIR OWN MATERIAL OR ANY EXTERNAL RESOURCES DURING THE EXAMINATION CONDUCTED VIA CLOSED BOOK

THIS QUESTION PAPER CONSISTS OF **SIX (6)** PAGES

Q1 Perfect competition is characterized by a market structure featuring numerous small firms offering homogeneous or identical products. None of these firms possess market power to influence prices by altering production levels. Nevertheless, challenges emerge when assessing efficiency. Although price reduction due to competition is evident, evaluating whether resources are optimally allocated and productive efficiency is achieved presents difficulties.

- (a) Describe **THREE (3)** issues for evaluating the efficiency in this market structures. (9 marks)
- (b) Illustrate, the short-run equilibrium for the perfect competition firm. (8 marks)
- (c) Explain the long-run profit or loss outcome for firms in perfect competition firm. (3 marks)

Q2 Economists have developed a method of aggregating the wide variety of production in an economy by using a measure called gross domestic product (GDP). GDP, is the market value of the total worth of final goods and services produced annually within a country's borders.

- (a) Explain **FOUR (4)** components of GDP by expenditure approach. (8 marks)
- (b) A hypothetical economy produces only fun and food in her GDP. Table **Q2.1** shows the prices and the quantities of fun and food produced in 2023 and 2024. The base year is 2023.

Table Q2.1: GDP of a hypothetical economy

GDP data for 2023		
Item	Quantity	Price (RM)
Fun	40	RM2
Food	60	RM3
GDP data for 2024		
Item	Quantity	Price(RM)
Fun	35	RM3
Food	65	RM2

- (i) Calculate the nominal GDP in 2023 and 2024 (4 marks)
- (ii) Calculate the real GDP in 2023 and 2024 (base year 2023) (4 marks)



- (iii) Calculate the percentage increase in real GDP in 2024 (2 marks)
- (iv) List **TWO (2)** main purposes of real GDP estimation. (2 marks)

Q3 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 Q3.1 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.

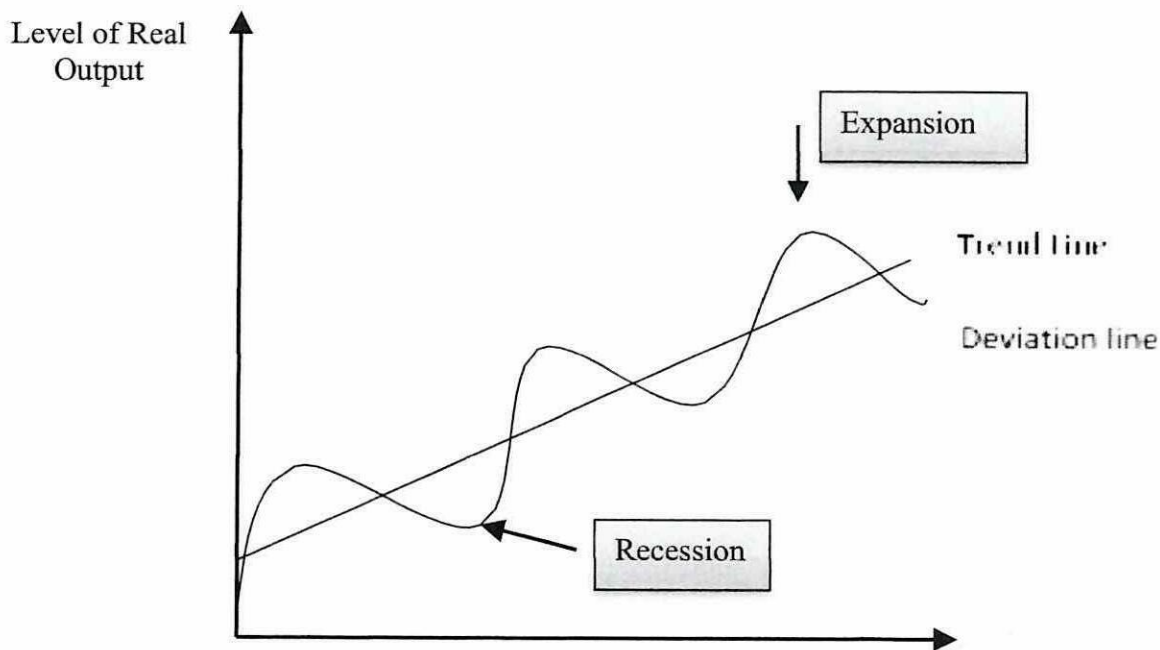


Figure Q3.1: A Typical Business Cycle

- (a) Analyze the trend of output growth, unemployment and inflation throughout the business cycle of expansion and recession in the economy. (9 marks)
- (b) Discuss **TWO (2)** uses of real GDP as a measure of the standard of living and welfare of a country. (4 marks)
- (c) Explain **TWO (2)** limitations of real GDP as a measure of the standard of living and welfare of a country. (4 marks)

Q4 (a) In a simple economy, assume people consume only 2 goods, food and clothing. The market basket of goods used to compute the CPI consists of 50 units of food and 10 units of clothing. The details of the consumption is shown in **Table Q4.1**.

Table Q4.1: Consumption details

Year	Food		Clothing	
	Price/unit	Quantity	Price/unit	Quantity
2013	RM4	50	RM10	10
2014	RM6	50	RM20	10

Compute:

- (i) The percentage increase and the Consumer Price Index (CPI) of food and clothing. (4 marks)
- (ii) The inflation rate in the economy. (2 marks)
- (b) Explain whether the changes in price affect all the consumers to the same extent. (4 marks)
- (c) Suppose a country had an adult population of about 50 million, a labor-force participation rate of 60 percent, and an unemployment rate of 5 percent.
 - (i) Compute the number of people employed in this country. (1 mark)
 - (ii) Compute the total number of unemployed in this country. (1 mark)
 - (iii) Explain what is meant by natural rate of unemployment. (2 marks)

- (d) The following **Figure Q4.2** shows relationship between wage rate per hour and quantity of workers in a hypothetical industry.

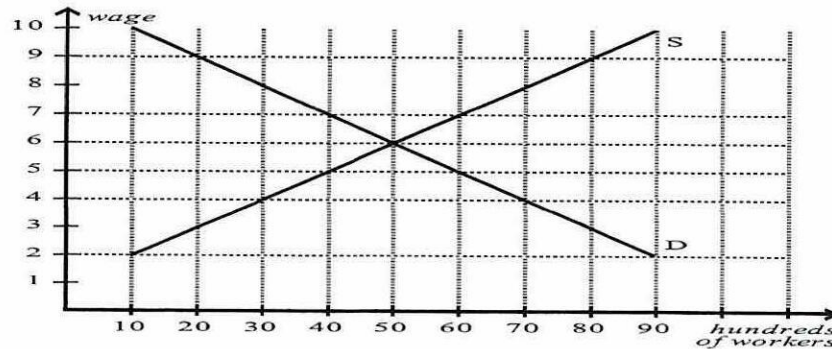


Figure Q4.2: Labour Market Equilibrium

- (i) Explain what happens to the labour market in this industry when the government imposes a minimum wage rate of RM8 per hour. (5 marks)
- (ii) Analyze using the efficiency-wage theory, salaries of the workers assuming that there is an excess supply of workers in this industry. (4 marks)

- Q5** (a) **Figure Q5.1** shows the demand and supply of money. The left-hand vertical axis is the value of money, measured by $1/P$. The right-hand vertical axis is the price level (P). Note that it is inverted—a high value of money means a low price level and vice versa. At the equilibrium, the quantity of money demanded is equal to the quantity of money supplied.

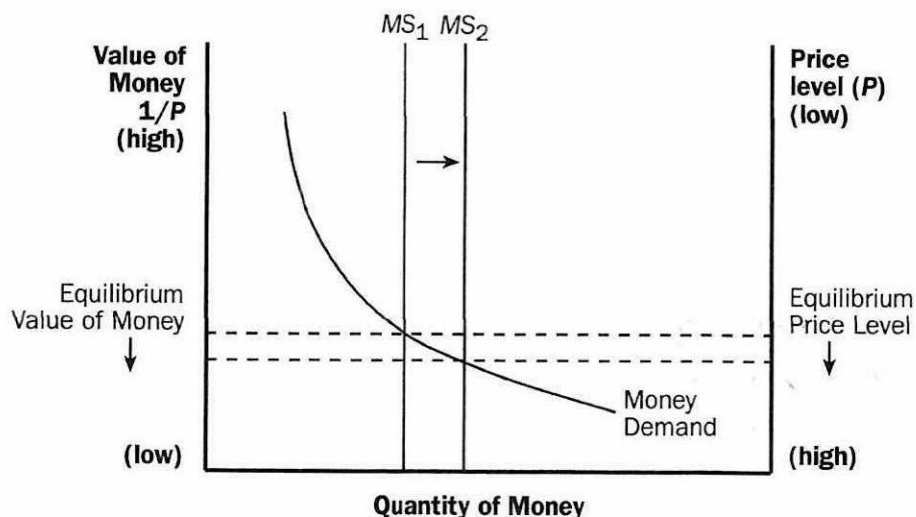


Figure Q5.1: Demand and Supply of Money



Assume that the economy is currently in equilibrium and Bank Negara Malaysia (BNM) increases the supply of money.

Discuss the effect of the changes to:

- (a) Money supply (6 marks)
- (b) Equilibrium value of money (6 marks)
- (c) The price level in the economy (8 marks)

- END OF QUESTIONS -