



UNIVERSITI TUNKU ABDUL RAHMAN
FACULTY OF ACCOUNTANCY AND MANAGEMENT
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**TUTORIAL 1 & 2:
INTRODUCTION TO MACROECONOMICS**

Structure Questions:

1. What are the 3 main types of unemployment found in an economy?
2. What are three kinds of policies used by the government to solve macroeconomic problems?

Essay:

1. Based on what you know or think, discuss about the performance and concern of Malaysia's economic for the year 2014 in term of
 - i. Output growth
 - ii. Inflation
 - iii. Unemployment or labour issues
2. What are the differences between Classic School of thought and Keynesian School of thought?

**TUTORIAL 3:
MEASURING NATIONAL OUTPUT AND NATIONAL INCOME**

Structure Questions:

1. Why does GDP not an accurate reflection of an economic growth of a nation?
2. (a) Using the set of accounts as below calculate national income using the expenditure method?

	<u>RM million)</u>
Consumption of durable goods	24.6
Consumption of non-durable goods	13.2
Residential investment	14.7
Non- residential Investment	6.7
Changes in business inventories	2.2
Government consumption	14.5
Exports	2.3
Imports	4.5

- (b) Is it common for a developing economy having a net export deficit?
3. Given are the following set of accounts (in RM Million). Calculate the GDP using the income method?

Compensation to employees	5969.5	Depreciation	1393.5
Proprietor's income	756.5	Indirect Taxes	44.4
Corporate profits	787.4	Subsidies	22.6
Net interest	684.2	Net factor payments to the rest of the world	9.6
Rental	142.4		

4. Based on the table below, answer question (i) to (iii).

Component of Gross Domestic Product (GDP)	RM million
Consumption on durable and non-durable goods	1,600
Consumption of services	700
Residential and non-residential investment	860
Change in inventories	– 50
Corporate profit	610
Export	370
Import	230
Receipt of factor income from the rest of the world	840
Payment of factor income to the rest of the world	770

- (i) Calculate the Gross Domestic Product (GDP) using expenditure approach.
- (ii) If the depreciation is RM200 million, indirect taxes are RM120 and subsidies are RM90, calculate the national income.

**TUTORIAL 4:
AGGREGATE DEMAND – SUPPLY MODEL**

Structure Questions:

1. Explain why expansionary policy does not work well when the economy is operating at almost full capacity.
2. Explain the effect of tsunami to Aceh economy in the aspect of output and price changes using aggregate demand – supply model.
3. List down and briefly explain what factors that can change (increase) aggregate demand.
4. List down and briefly explain what factors that can change (increase) aggregate supply.

Essay:

1. Explain the differences between demands–pull and cost–push inflation using aggregate demand – supply model.
2. Since the year of 2004, crude oil price has been continuously increasing. This created an oil price shock in the economy.
 - (i) Using aggregate demand and supply graph, explain the impact of oil price increase to the price level and aggregate output (income).
 - (ii) Using the results from part (i), explain and show what happen if the government increases its spending to bring aggregate output back to previous level.
 - (iii) Why a policy to encourage high labour productivity is better than increase of government spending in this kind of situation? Use the graph as in question (b)(i) to guide your explanation.

TUTORIAL 5: ECONOMICS GROWTH (PPF)

Structure:

1. In an economy, what are the basic economic problems? Briefly explain how the different types of economic systems solve the economic problems.
2. The table below represents five points on the production possibility frontier for the small country of Bistro, which produces only crackers (measured in thousands of boxes) and cheese (measured in thousands of pounds):

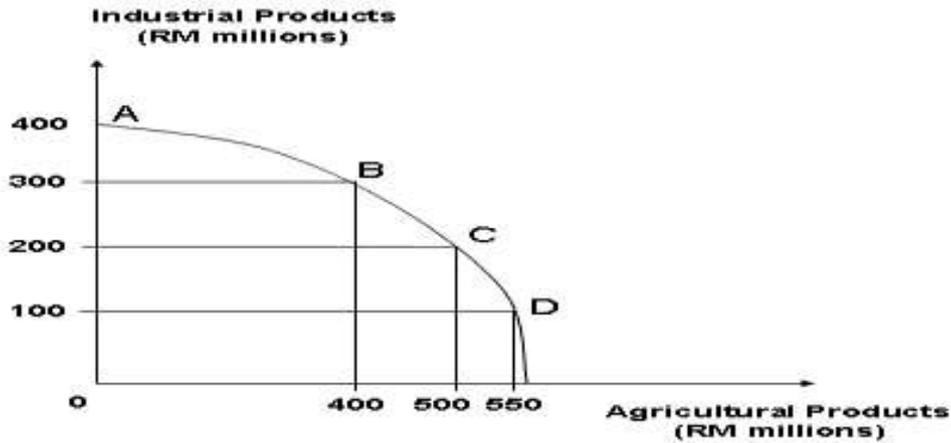
	A	B	C	D	E
Crackers	40	30	20	10	0
Cheese	0	5	10	15	20

Does the production possibility frontier demonstrate the law of increasing opportunity cost? How can you tell?

3. Suppose a country produces two goods: corn and cars. New technology is developed that increases the amount of corn that can be produced. Use a graph to show the effect of this graph on the country's production possibility frontier. Explain what occurs in the graph.
4. Suppose that a simple society has an economy with only one resource, labor. Labor can be used to produce only two commodities – X, a necessity good (food) and Y, a luxury good (music and merriment). Suppose that the labor force consists of 100 workers. One laborer can produce either 5 units of necessity per month (by hunting and gathering) or 10 units of luxury per month (by writing songs, playing the guitar, dancing, etc).
 - a. Draw the economy's production possibility frontier (PPF). Where does the PPF intersect the Y-axis? Where does it intersect the X-axis? What meaning do those points have?
 - b. Suppose the economy produced at a point inside the PPF. Give at least two reasons why this could occur. What could be done to move the economy to a point on the PPF? [Case & Fair (2004: 41)]

Essay:

1. Figure 1 illustrated the Production Possibility Frontier (PPF) for the allocation of resources in Malaysia. Assume that the Malaysia only produces agricultural products and industrial products.



- (a) What is the respective opportunity cost for moving the production from:
- Point A to Point B
 - Point B to Point C
 - Point C to Point D
- (b) Does the production possibility frontier demonstrate the law of increasing opportunity cost? Give brief explanation for your answer.
- (c) Malaysian is currently producing at Point B. Its government would like to develop the agriculture sector, thus, encouraging the local entrepreneurs to shift their investment in the industrial sector into agricultural sector. If local entrepreneurs follow the government's encouragement, sketch a PPF diagram to illustrate this scenario. Mark a possible new production combination (point) as "E". Give your explanation.
- (d) If there is an improvement in biotechnology in Malaysia, what happen to the PPF? Illustrate this scenario in the same PPF diagram as in question (c). Mark a new possible production point as "F". Give your explanation.
- (e) If both scenario as in (c) and (d) happen, mark a possible production combination as "G" in the same PPF diagram you have sketched. Give your explanation

TUTORIAL 6 & 7:
AGGREGATE EXPENDITURE & EQUILIBRIUM OUTPUT

Essay:

1. Answer the question based on the following information:

$$\begin{array}{ll} C = 100 + 0.60Y & G = 200 \\ I = 200 & T = 100 \end{array}$$

- a. Derive the saving function if we assume neither government spending nor taxes.
- b. What is the marginal propensity to consume (MPC) and marginal propensity to save (MPS) if we assume neither government spending nor taxes?
- c. Derive the saving function if we take into consideration the government spending and taxes as given by the above given information.
- d. What is the marginal propensity to consume (MPC) and marginal propensity to save (MPS) if we take into consideration the government spending and taxes as given by the above given information?
- e. From your answer to question 2 and question 4, what can you tell regarding MPC and MPS?
- f. What is the equilibrium output taking all the above given information into consideration?

2. The following functions are related to the economy of a country.

Consumption expenditure:

$$C = 300 + 0.60Y, \text{ where } Y \text{ is the national income}$$

Investment expenditure: $I = 500$

Government spending: $G = 1,000$

- (i) Determine the country's equilibrium level of national income.
 - (ii) Calculate the government spending multiplier. Using the multiplier concept, calculate the new equilibrium national income if government spending decrease from 1,000 to 700.
 - (iii) Using the aggregate expenditure approach, draw a graph to illustrate and explain your answer as in (ii).
3. (a) The following functions are related to the economy of a country.

Consumption expenditure:

$$C = 100 + 0.80Y, \text{ where } Y \text{ is the national income}$$

Investment expenditure: $I = 200$

Government spending: $G = 500$

- (iii) Derived the saving function.
- (iv) Determine the country's equilibrium level of national income.
- (v) Calculate the government spending multiplier. Using the multiplier concept, calculate the new equilibrium national income if government spending increase from 500 to 600 while investment expenditure increase from 200 to 300.
- (vi) Sketch a graph to illustrate your answer.

TUTORIAL 8 & 9: FISCAL & MONETARY POLICY

Essay:

5. Explain what is meant by a contractionary fiscal policy, how it through adjusting the government spending and its effect to the aggregate output. Use graph if deem necessary.
6. Explain what is meant by a contractionary monetary policy, how it work through adjusting the money supply and its effect to investment and Gross Domestic Product (GDP). Use graph if deem necessary.
7. Bank Negara Malaysia purchases securities from the public. Explain how this will affect the aggregate demand and aggregate output of Malaysia. Use graphs to illustrate your explanation.
8. When the government increases its spending, this will be less effective in increasing aggregate output if crowding-out effect happens. Use a graph to explain this statement.
9. Briefly define expansionary monetary policy. Using the aggregate expenditure approach, explain how expansionary monetary policy can increase national income through changes in investment. [No graph is needed].
6. The Central Bank of Malaysia (Bank Negara Malaysia, BMN) implemented an expansionary monetary policy. At the same time, productivity of labour in Malaysia increased. Based on this scenario, answer the following questions.
 - (i) Explain briefly how Bank Negara Malaysia can implement the expansionary monetary policy using different monetary tools.
 - (ii) Using aggregate demand and aggregate supply graph, explain the impact of these two combined scenarios to the price level and aggregate output. Assume that the magnitude of change for these two scenarios is identical.

TUTORIAL 10 & 11: Presentation of Assignments

**TUTORIAL 13 & 14:
INTERNATIONAL TRADE AND EXCHANGE RATE**

Structure Questions:

Tables below show the production and consumption condition for Japan and South Korea.

	Production (million units per unit of input)		Consumption (million units)	
	Japan	South Korea	Japan	South Korea
Electronic	30	10	150	50
Food	10	8	20	16

	Input allocation (millions unit)	
	Japan	South Korea
Electronic	5	5
Food	2	2

1. Which countries (Japan or South Korea) are more efficient in producing electronic and food from the respectively view? Give a brief explanation.
 - i. Absolute advantage
 - ii. Comparative advantage
2. Should you encourage both countries to trade based on the respectively view?
 - i. Absolute advantage
 - ii. Comparative advantage
3. If Japan and South Korea would to specialize and trade with each other, which country should specialize in what production?
4. Assume that the term of trade is 2.5 units of electronic for 1 unit of food and Japan wish to consume 20 million units of food after trade. How can the trade be done?
5. Compare the total production of both countries before the trade with total production after the trade. What can you comment regarding the benefit of specialization and international trade?
6. What is the range for term of trade to enable a fair trade between Japan and South Korea?