Student Registration No.		**Date**	
Desk No.		**Examination Centre**	

Time allowed: 3 hours

INSTRUCTIONS TO CANDIDATES

1.   This paper consists of **TWO** sections. **SECTION A** contains **TWENTY** multiple choice questions and **SECTION B** contains **SIX** questions.

2.   Answer **ALL** questions in **SECTION A** and choose any **FOUR** questions out of SIX from **SECTION B**.

3.   Each answer should begin on a separate answer template.

4.   All workings **MUST** be shown as marks will be awarded.

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SECTION A: Multiple Choice Questions (Total: 20 marks)

Answer all questions in the multiple choice answer sheet provided. Each question is worth one (1) mark.

1. For opportunity cost to exist, there must first be_____.
    A. scarcity
    B. abundance
    C. many industries
    D. many consumers

2. The following is an example of a macroeconomic policy of the government:
    A. regulating competition in industries.
    B. reviewing the national education policy.
    C. changing spending and taxation to affect aggregate demand.
    D. promoting the palm oil industry.

3. The following statements are positive except:
    A. The household indebtedness averages 90 per cent.
    B. The government should not have banned concerts by foreign artistes.
    C. The unemployment rate for youths has increased by one per cent.
    D. Inflation rate has increased to five per cent last year.

4. A social media influencer made a video that went viral on Tik Tok about the benefits of consuming tofu. Ceteris paribus we can expect,
    A. demand for tofu to decrease, and price of tofu to decrease.
    B. demand for tofu to decrease, and price of tofu to increase.
    C. demand for tofu to increase, and price of tofu to remain.
    D. demand for tofu to increase, and price of tofu to increase.

5. The sudden hot weather has increased demand for Coca Cola. However, the workers in the local assembly and bottling plant are on strike. We can expect the
    A. price of Coca Cola to rise, but the quantity traded in the market cannot be determined.
    B. price of Coca Cola to rise, and the quantity traded in the market will also rise.
    C. price of Coca Cola to rise, and the quantity traded in the market will fall.
    D. price of Coca cola to fall, but the quantity traded in the market cannot be determined.

6. Which of the following is correct with regards to elasticity?
    A. Price elasticity of demand for essential goods is more than one in absolute value.
    B. Income elasticity of demand for normal goods is greater than zero.
    C. Income elasticity of demand for inferior goods is greater than zero.
    D. Cross price elasticity of demand for two goods that are complements is positive.

7. In a market where the demand curve is downward sloping and supply curve is upward sloping, the imposition of a specific government tax will
    A. increase market price, with producers paying all taxes.
    B. decrease market price, with producers paying all taxes.
    C. increase market price, with consumers and producers sharing the tax burden.
    D. increase market price, with consumers paying all taxes.

8. When average product of a firm is rising,
    A. marginal product is greater than average product.
    B. marginal product is less than average product.
    C. marginal product is equal to average product.
    D. total product is falling.

9. A firm in a perfectly competitive industry (perfect competition) currently enjoys supernormal profits. In the long run, we can expect
    A. new firms to enter the market but existing firms still continue making profits.
    B. new firms to enter the market and, eventually, profits will disappear entirely.
    C. firms to exit the market and existing firms will continue to make profits.
    D. no entry or exist to take place and the status quo is preserved in the long run.

10. What is the implication of the free rider problem?
    A. Public goods are under-provided by private markets.
    B. Public goods are supplied optimally by private markets.
    C. Public goods are no different from private goods.
    D. Public goods can be priced easily.

11. Country A can produce 3 apples and 2 oranges with one unit of labour. Country B can produce 2 apples and 3 oranges with one unit of labour. We can conclude that
    A. country A has absolute advantage in oranges.
    B. country B has absolute advantage in apples.
    C. country A has comparative advantage in oranges while country B has comparative advantage in apples.
    D. country A has comparative advantage in apples while country B has comparative advantage in oranges.

12. A country has a large number of foreign workers. Each year, the foreign workers would remit their earnings back to their home countries. With regards to gross domestic product (GDP) and gross national product (GNP), we can expect
    A. GDP to be equal to GNP.
    B. GDP to be smaller than GNP.
    C. GDP to be greater than GNP.
    D. GDP per capita will increase while GNP per capita will decrease.

13. A government intending to consolidate its finances and decrease debts could do the following except
    A. increase taxes.
    B. cut taxes.
    C. increase the inflation rate.
    D. increase economic growth.

14. The following are examples of supply-side policies except
    A. open market operations.
    B. increasing investments in education.
    C. increasing investments in new technology and research.
    D. increasing expenditure to improve the efficiency of supply chains.

15. An expansionary monetary policy will be most effective when
    A. marginal tax rates are high.
    B. marginal propensity to consume is low.
    C. investment is not sensitive to interest rates.
    D. money demand is relatively interest-inelastic while investment is highly sensitive to interest rates.

16. The government decides to reduce expenditure and increase taxation. This macroeconomic policy is an example of
    A. expansionary fiscal policy.
    B. contractionary fiscal policy.
    C. expansionary monetary policy.
    D. contractionary monetary policy.

17. Which of the following policy is effective in lowering the natural rate of unemployment?
    A. Reducing imports.
    B. Cutting taxes.
    C. Increasing the number of job training centres.
    D. Cutting interest rates.

18. The government operates a proportional tax system (tax revenue depends on national income). A reduction in imports and increase in the marginal propensity to consume will
    A. increase taxes and reduce national income.
    B. increase taxes and increase national income.
    C. decrease taxes and increase national income.
    D. decrease taxes and reduce national income.

19. In an open economy that is presently at equilibrium (withdrawals = injections), there is a budget surplus (T – G) of RM3 million, and private sector surplus (S – I) of RM13 million. Using the equilibrium condition that S + T + M = X + I + G, we can conclude that the current account (X – M)
    A. has a deficit of RM3 million.
    B. has a surplus of RM13 million.
    C. has a deficit of RM10 million.
    D. has a surplus of RM16 million.

20. To prevent the Ringgit Malaysia (RM) from depreciating against the US dollar, Bank Negara Malaysia will most likely
    A. sell RM in the foreign exchange market and increase its reserves of foreign currencies.
    B. buy RM in the foreign exchange market and reduce its reserves of foreign currencies.
    C. buy RM in the foreign exchange market and increase its reserves of foreign currencies.
    D. sell RM in the foreign exchange market and reduce its reserves of foreign currencies.

SECTION B: Structured Questions (Total: 80 marks)

Answer any **FOUR** questions out of **SIX** in this section.

Question 1

(a) Elaborate on the concepts of the Law of Demand and the Law of Supply.

(4 marks)

(b) What are the factors that affect the demand for a product or service?

(6 marks)

(c) The following table displays the schedules for both demand and supply of pretzels.

Price (RM per pack)	Quantity demanded (thousands of packs a week)	Quantity supplied (thousands of packs a week)
2.40	170	90
2.50	160	100
2.60	150	110
2.70	140	120
2.80	130	130
2.90	120	140

  (i) Determine the equilibrium price and quantity for pretzels.

(2 marks)

  (ii) If pretzels were priced at RM2.60 per pack, describe the market forces impacting pretzels and explain the potential effects on the price of a pack of pretzels.

(4 marks)

  (iii) Suppose a new airy and crunchy snack enters the market, causing a 40,000 packs per week reduction in the demand for pretzels. Explain whether there has been a shift in or a movement along the demand curve for pretzels. What is the new equilibrium price and quantity of pretzels?

(4 marks)

[Total: 20 marks]

Question 2

(a) **(i)** **What is the marginal product of labour and the average product of labour?**

(2 marks)

(ii) **Explain the relationship between average product and marginal product.**

(4 marks)

(iii) **Explain economies of scale and diseconomies of scale.**

(4 marks)

(b) Andy (A) and Ben (B) are caught stealing cars and sentenced to two years jail. They are under suspicion for a more serious crime for which the prosecutor lacks sufficient evidence to secure a conviction. Both of them are separately interrogated for this more serious offense.

Each prisoner is told that if he confesses and his partner denies, he will serve one year in jail while his partner will serve 10 years. On the other hand, if both confess, both will serve three years in jail. However, if neither confesses, each will be found guilty of a lesser crime, resulting in two years in jail for each.

(i) **What is the Nash equilibrium for this prisoner's dilemma game?**

(5 marks)

(ii) **What is the dominant strategy for each of them?**

(5 marks)

[Total: 20 marks]

Question 3

(a) **What is nominal and real gross domestic product (GDP)?**

(2 marks)

(b) **List down four limitations associated with the measurement of real GDP.**

(4 marks)

(c) The transactions in the economy of Country A last year are listed in the table below.

Item	$
Gross domestic product	1,400,000
Consumption expenditure	700,000
Taxes	350,000
Transfer payments	150,000
Profits	300,000
Investment	350,000
Exports	400,000
Saving	400,000
Imports	350,000

    (i) **Calculate Country A's aggregate expenditure.**

(2 marks)

    (ii) **Calculate Country A's net exports.**

(2 marks)

    (iii) **Calculate Country A's government expenditure.**

(4 marks)

(d) **(i)** **What is a reserve ratio?**

(2 marks)

    (ii) **How does the money multiplier work?**

(2 marks)

    (iii) **If the reserve ratio is 10 per cent, calculate the money multiplier.**

(2 marks)

[Total: 20 marks]

Question 4

(a) Explain the concepts of absolute advantage and comparative advantage in international trade.

(4 marks)

(b) If in one hour, Country A can produce 10,000 units of Product X while Country B can produce 5,000 units of Product X. Which country has an absolute advantage in the production of Product X? Explain your answer.

(4 marks)

(c) If in one day, Person A can bake 10 cakes or repair 20 bicycles, while Person B can bake 8 cakes or repair 12 bicycles. Which person has a comparative advantage in which activity? How can they benefit from specialization and trade?

(6 marks)

(d) Define net foreign investment (or net capital outflow) and explain how it relates to a country's capital flows.

(6 marks)

[Total: 20 marks]

Question 5

(a) Illustrate the following by drawing short-run aggregate demand and aggregate demand diagrams. Draw a diagram for each case.

    (i) Recent technological advancements enable workers to enhance their productivity.

    (ii) Economic expansion leads to an increase in household wealth.

(8 marks)

(b) Using the aggregate demand-aggregate supply model, show and explain the long-run equilibrium in a diagram. Suppose now that a recession occurs, explain the adjustment mechanism to restore long-run equilibrium. Describe the impact on both price and output levels. Use a diagram to illustrate your analysis.

(8 marks)

(c) Explain what is a Phillips curve and discuss how the natural rate of unemployment influences the trade-off depicted by the curve.

(4 marks)

[Total: 20 marks]

Question 6

(a) **What are the three goals of monetary policy?**

(2 marks)

(b) **How does monetary policy affect the equilibrium for gross domestic product (GDP)?**

(5 marks)

(c) **How can monetary policy tackle the issue of a recession or slow economic growth? Draw suitable diagrams to illustrate your answer.**

(8 marks)

(d) **What are the advantages and disadvantages of implementing a flexible exchange rate system?**

(5 marks)

[Total: 20 marks]

(END OF QUESTION PAPER)