



Gratia Christian College  
宏恩基督教學院

Academic Year 2016-2017

Semester 2

Examination

Course Code & Title : MM2202 Macroeconomics

Time Allowed : 2 hours 30 minutes

Student Name : \_\_\_\_\_

Student ID : \_\_\_\_\_

This paper has 10 pages (including this cover page).

1. This paper contains three sections: 25 questions in Section A (25%) and 3 questions in Section B (75%).
2. Answer **ALL** questions in Section A and Section B.
3. Answers to Section A should be marked on the Multiple-choice Answer Sheet. Answers to Section B should be written in the Answer Book. In the Answer Book, start EACH question (not part of a question) on a NEW page.

This is a **closed-book** examination.

*Candidates are allowed to use the following materials/aids:*

*- Noiseless and cordless calculators without communication function.*

*Materials/aids other than those stated above are not permitted. Candidates will be subject to disciplinary action if any unauthorized materials or aids are found on them.*

**DO NOT TURN THIS PAGE UNTIL YOU ARE TOLD TO DO SO.**

Section B (75 marks)

Answer ALL questions. Each question carries 25 marks.

Question 1

- a. Define unemployment. (2 marks)
- b. Differentiate between labor force and working age population. (6 marks)
- c. Explain and provide relevant examples on the following types of unemployment:
- i. Frictional Unemployment. (3 marks)
  - ii. Structural Unemployment. (3 marks)
  - iii. Seasonal Unemployment. (3 marks)
  - iv. Cyclical Unemployment. (3 marks)
- d. Is it more important for a government to achieve a low inflation or a low unemployment rate? Explain your answer. (5 marks)

(Total: 25 marks)

Question 2

Inflation is a hot topic in macroeconomics. Many nations around the world are facing continuous inflation, but at a different rate.

- a. Define inflation.

(2 marks)

**Table A: Degree of Inflation**

<b><u>Category</u></b>	<b><u>Inflation Figure (in %)</u></b>	<b><u>Description</u></b>
Low Inflation	Single digit	Mild
Galloping Inflation	Double and triple digit	Survival of the fittest
Hyperinflation	Quadruple digit	Deadly

- b. Discuss the degree of inflation based on the information from **Table A**. Support your explanation with relevant examples.

(9 marks)

**Table B: Consumer Price Index (CPI) of Country X**

<b><u>Year</u></b>	<b><u>CPI Figure</u></b>
1995 (base year)	205.6
2005	214.8
2015	227.3

- c. Define Consumer Price Index (CPI).

(3 marks)

- d. Referring to **Table B**, calculate the rate of inflation of Country X in 2005 and 2015 respectively.

(3 marks)

- e. Explain the main factors taken into account when setting the base interest rate by the Hong Kong Monetary Authority (HKMA) in Hong Kong.

(8 marks)

(Total: 25 marks)

### Question 3

The following data (expressed in billions of dollars) describe a particular economy:

$$\begin{aligned}C &= 100 + 0.8Y_D \\I &= 50 \\G &= 60 \\T &= 40 \\Y_{FE} &= 965\end{aligned}$$

where  $Y_D$  = Disposable Income;  $C$  = Consumption;  $I$  = Investment;  $G$  = Government Expenditure;  $T$  = Taxation;

$Y_{FE}$  = Equilibrium National Income at Full Employment Level

- a. Calculate the following:
- Investment Multiplier
  - Tax Multiplier
  - Balanced Budget Multiplier
- (6 marks)
- b. At what level of income will savings equal zero?
- (4 marks)
- c. How much is Aggregate Demand (AD) when income is 900 billion? Is the economy in equilibrium at this level of income?
- (2 marks)
- d. Find the equilibrium level of National Income?
- (3 marks)
- e. Suppose the Government Expenditure ( $G$ ) is increased by 10 billion. Find the resulting equilibrium level of income?
- (2 marks)
- f. How much more is the Government Expenditure ( $G$ ) required to achieve full employment?

(2 marks)

- g. What tax policy would drive the economy from the equilibrium level calculated in “f.” to its full-employment level?

(3 marks)

- h. What fiscal policy (involving changes in both the Government Expenditure (G) and Taxation (T)) would restore full employment without getting the Government’s budget any further out of balance?

(3 marks)

(Total: 25 marks)

**Note:** *Answers without supporting calculations will receive zero credit. You will receive credit only for the answers with supporting calculations.*

- END OF EXAMINATION -