Gratia Christian College
宏恩基督教學院

Examination

Programme : Higher Diploma in Transformative Business Management
Academic Year (Semester) : 2025 - 2026 (Semester 1)
Course Code : HTM102
Course Title : Macroeconomics

Date : 22 December 2025
Time : 10:00 am – 12:00 nn
Time Allowed : 2 Hours
Weighting : 35% of the Overall Marks

Student ID No. : _____

This paper has **6** pages (including this cover page).

Instructions to candidates:

1. This question paper consists of two sections, answer ALL questions in both Sections.
2. Section A (40 marks) is multiple choices questions, choose ONE of the four options.
3. Section B (60 marks) is short questions.
4. Answer all questions in the answer book provided.
5. This paper carries 100 marks which are allocated to each question as indicated.
6. This is a closed-book examination.

No materials or aids are allowed during the whole test/examination. If any unauthorized materials or aids are found on a candidate during the test/examination, the candidate will be subject to disciplinary action.

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You should hand in this question paper after the examination.

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Section A (40 marks, 2 marks each)

1) The core difference between the Classical and Keynesian schools of thought primarily concerns the belief about:
(A) The slope of the Aggregate Demand curve.
(B) The role of the central bank in setting interest rates.
(C) The speed at which the economy naturally returns to full employment.
(D) The calculation of Gross Domestic Product (GDP).

2) Which of the following items is excluded from the calculation of GDP by the Expenditure Approach?
(A) Government spending on new infrastructure.
(B) Consumption of services like haircuts and medical care.
(C) The purchase of intermediate goods used in the production of final goods.
(D) The change in business inventories during the year.

3) The Commodity Substitution Bias in the Consumer Price Index (CPI) occurs because the CPI:
(A) Fails to account for improvements in the quality of existing goods.
(B) Uses a fixed basket of goods, ignoring consumers' shift to relatively cheaper items.
(C) Does not include new goods entering the market until a major revision.
(D) Only measures prices in urban areas, not rural ones.

4) Which of the following factors causes the Aggregate Demand (AD) curve to shift to the right?
(A) A decrease in autonomous consumption due to pessimistic consumer expectations.
(B) An increase in the marginal propensity to save (MPS).
(C) A decrease in taxes, leading to higher disposable income.
(D) A reduction in government spending on goods and services.

5) In the short-run Aggregate Expenditure (AE) model, if Planned Aggregate Expenditure (PAE) is greater than Real GDP (Y), what is the immediate consequence?
(A) Firms experience an unplanned accumulation of inventories, causing them to decrease production.
(B) Firms experience an unplanned depletion of inventories, causing them to increase production.
(C) Actual investment equals planned investment, so the economy is in equilibrium.
(D) The price level will immediately fall, shifting the AD curve to the left.

6) An economy is experiencing Stagflation. This is a combination of:
(A) Falling Real GDP and falling Price Level.
(B) Rising Real GDP and rising Price Level.
(C) Falling Real GDP and rising Price Level.
(D) Rising Real GDP and falling Price Level.

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7) The Real Business Cycle (RBC) theory attributes business cycle fluctuations primarily to:
(A) Changes in the money supply orchestrated by the central bank.
(B) The inherent pessimism and optimism of consumers and firms (animal spirits).
(C) Shocks to the rate of technological change (productivity shocks).
(D) Sticky nominal wages that prevent the labour market from clearing.

8) The Multiplier Effect ensures that an initial change in autonomous expenditure leads to a final change in Real GDP that is:
(A) Smaller than the initial change, due to diminishing returns.
(B) Equal to the initial change, provided the price level is fixed.
(C) Larger than the initial change, due to successive rounds of induced spending.
(D) Only affected by changes in the Marginal Propensity to Save (MPS).

9) Which of the following component is included in M1?
(A) Savings deposits
(B) Time deposits
(C) Traveler's checks
(D) Money market mutual funds

10) When a bank receives a new cash deposit of $1,000 and the required reserve ratio is 10%, the bank must:
(A) Lend out $1,000 immediately.
(B) Hold $100 in reserves and can lend out a maximum of $900.
(C) Hold $900 in reserves and can lend out a maximum of $100.
(D) Hold $1,000 in reserves, resulting in no change to the money supply.

11) The Quantity Theory of Money (MV = PY) assumes that in the long run:
(A) The money supply (M) is constant.
(B) Velocity (V) and Real GDP (Y) are fixed.
(C) Prices (P) are flexible, but V is fixed.
(D) Money supply growth is driven by Real GDP growth.

12) According to the Fisher Effect, an increase in the expected rate of inflation leads to:
(A) An immediate decrease in the nominal interest rate.
(B) A long-run decrease in the real interest rate.
(C) A long-run increase in the nominal interest rate.
(D) No change in either the nominal or the real interest rate.

13) The most important function of money that allows people to trade without the complexities of a barter system is its role as a:
(A) Unit of Account.
(B) Store of Value.
(C) Medium of Exchange.
(D) Standard of Deferred Payment.

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14) Which statement accurately describes the long-term difference between a Government Budget Deficit and Government Debt?
(A) The deficit is a stock, and the debt is a flow.
(B) The deficit is the total accumulation of past borrowing, and the debt is the annual shortfall.
(C) The debt is a stock representing total past deficits, and the deficit is a flow representing the annual shortfall.
(D) Neither the deficit nor the debt has a significant impact on future generations.

15) The Ricardian Equivalence theorem suggests that a tax cut financed by government borrowing may be ineffective as fiscal stimulus because:
(A) Households will not spend the extra money but will save it in anticipation of future tax increases.
(B) The interest rate will automatically fall, offsetting the stimulus.
(C) The tax cut only affects the supply side of the economy.
(D) Lags in implementation prevent timely stimulus.

16) A corporate income tax cut intended to be a supply-side measure primarily aims to shift the LRAS curve to the right by:
(A) Reducing the cost of borrowing for the government.
(B) Increasing the after-tax return on investment, encouraging capital formation.
(C) Directly increasing consumption spending by households.
(D) Reducing the natural rate of unemployment in the short run.

17) Which of the following is a major challenge associated with the use of Discretionary Fiscal Policy?
(A) The policy is too fast and often overshoots the target.
(B) It is subject to long implementation and impact lags, reducing its effectiveness.
(C) It only affects the supply side of the economy.
(D) It only affects the money market.

18) The Dual Mandate of the U.S. Federal Reserve (Fed) consists of:
(A) Maximizing the budget deficit and controlling the national debt.
(B) Maintaining a fixed exchange rate and ensuring free trade.
(C) Achieving stable prices and maximum employment.
(D) Regulating banks and operating the payments system.

19) The primary tool used by most modern central banks, including the Fed, to implement monetary policy and target the overnight interbank interest rate is:
(A) Changing the required reserve ratio.
(B) Open market operations (buying and selling government securities).
(C) Directly controlling the government budget deficit.
(D) Issuing currency (cash) to the public.

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20) The sequence of events that describe how monetary policy affects the economy is called the Monetary Policy Transmission Mechanism. The first step after the central bank acts is a change in the:
(A) Price level.
(B) Nominal and real interest rates.
(C) Aggregate demand.
(D) Unemployment rate.

End of Section A

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Section B (60 marks)

Question 1
Explain two significant limitations of using **Gross Domestic Product (GDP)** as a sole measure of a nation's economic well-being and standard of living. (10 marks)

Question 2
Define the difference between a **Government Budget Deficit** and **Government Debt**. Explain how a sustained budget deficit affects the stock of government debt. (10 marks)

Question 3
Assume the U.S. Federal Reserve (Fed) significantly raises its target interest rate. Using the principles of the **Foreign Exchange Market**, explain the short-run effect of this action on the **demand for U.S. dollars** and the resulting change in the **exchange rate** (appreciation or depreciation of the dollar). (15 marks)

Question 4
Explain the fundamental difference in what **Mainstream Business Cycle Theory** and **Real Business Cycle (RBC) Theory** consider to be the primary cause of short-run economic fluctuations (business cycles). (10 marks)

Question 5
A country's firms purchased $400 million worth of new machinery, factories, and equipment this year (**Gross Investment**). If the total value of capital that wore out or became obsolete (**Depreciation**) during the year was $120 million, calculate the economy's **Net Investment** for the year. Explain what a positive Net Investment figure indicates for the economy's future potential output. (10 marks)

Question 6
The following macroeconomic data, in billions of dollars, was collected for the country of Econia in the year 2025: calculate the GDP for Econia in 2025. (5 marks)

Component	Value (Billions of $)
Household Consumption Expenditure (C)	1,500
Government Purchases of Goods and Services (G)	450
Business Investment (I)	300
Exports (X)	280
Imports (M)	350
Transfer Payments (Government to Households)	150
Depreciation	50

End of Section B and the Paper

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