MID EXAM (EVEN SEMESTER 2016-2017)

SUBJECT : Introductory Economics 2 (Pengantar Ekonomi 2)
(ECEU 600203)
DATE : 20 March 2017
DURATION : 180 minutes
MECHANISM: closed book, no-pencil, non-programmable

NOTE:
- *Your answers should be systematic, concise, but clearly demonstrate your understanding of the subject*
- *Allocate your time wisely and carefully*

COMPULSORY: PROBLEM 1 TO PROBLEM 6

PROBLEM 1 (15 POINTS)

a. Draw a circular flow diagram of a simple economy. Use the diagram to explain how a simple economy works. [5 points]
b. Explain why an economy's total income must equal its expenditure. [5 points]
c. Explain 3 (three) kinds of policies that the government can use to control the macroeconomy. [5 points]

PROBLEM 2 (12 POINTS)

Identify each of the activities below whether it is INCLUDED or EXCLUDED in the calculation of the Gross Domestic Product of Indonesia this year? Explain your answer!

a. A student of Universitas Indonesia receives monthly scholarship from the government. [1.5 points]
b. A person pays a monthly rent of Rp 2 million for an apartment in Depok. [1.5 points]
c. The government purchases a Sukhoi jet fighter for the Air Force. [1.5 points]
d. A farmer in Kerawang purchases a used tractor. [1.5 points]
e. The Indonesian government settles its bond that has come to maturity. [1.5 points]
f. A person purchases a built-up Mercedes Benz car. [1.5 points]
g. PT Semen Indonesia Tbk constructs a new plant in South Sulawesi. [1.5 points]
h. Stockholders receives income from selling stocks of PT Telkom Tbk. [1.5 points]

PROBLEM 3 (10 POINTS)

Do you AGREE or DISAGREE with each of the statements below? Explain your answers!

a. GDP is generally regarded as the best single measure of a society's economic well-being. [2 points]

b. Gross domestic product serves as a measure of two things: the nation's saving and the nation's investment. [2 points]

c. The informal sector in poor countries is larger than those in the rich countries in terms of the percentage of GDP. [2 points]

d. GDP is defined as the market value of all final goods and services produced within a country in a given period of time; this definition focuses on GDP as a measure of total income. [2 points]

e. The value of intermediate goods is included in GDP only if those goods were produced in the previous year. [2 points]

PROBLEM 4 (10 POINTS)

Using the Equation of Exchange, explain the direct relationship between growth in money supply and the inflation rate as implied by the Quantity Theory of Money. In which conditions does the relationship work? What are the assumptions behind the theory? Do you think the occurrence of budget deficits and other factors such as climate change / natural disaster will not affect the inflation rate?

PROBLEM 5 (18 POINTS)

In 2016, a small country Beary, with Besi as its currency, experienced a high unemployment rate. Using various data and information published by the Statistics Office, the country's economists construct an estimation of supply of and demand for labor as shown below:

$$Q_s = 20W - 40$$
$$Q_d = 200 - 10W$$

where
Q_d = the demand for labor (in millions)
Q_s = the supply of labor (in millions)
W = wage rate in Besi (per hour)
Questions:

a. The regulation on minimum wage in Bear does not allow a worker to be paid less than 9 Besi per hour. At this wage rate, calculate the amount of labor supply, the amount of labor demand, the number of unemployed and the unemployment rate. [6 points]

b. The President of Beary is currently evaluating the minimum wage rate regulation and considers to cancel it and let the wage rate determined by the market mechanism. If this new regulation applies, calculate the wage rate, the

amount of labor supply, the amount of labor demand, and unemployment rate. [6 points]

c. Draw a graph that shows your answers on point a and b above. Explain [6 points]

PROBLEM 6 (15 POINTS)

Logan is an economy producing 2 goods, X-Men and X-Women with information on production and price as follows:

X-Men

YEAR	QUANTITY OF PRODUCTION	PRICE
2015	100	100
2016	200	140
2017	300	140

X-Women

YEAR	QUANTITY OF PRODUCTION	PRICE
2015	45	80
2016	45	100
2017	75	100

a. If 2016 is used as a base year, calculate the nominal Gross Domestic Product (GDP), real GDP, and GDP Deflator of the economy. [5 points]
b. Calculate the economic growth and the inflation rate of Logan in 2016 and 2017. [5 points]
c. Based on your calculations on point a and b above, compare the Logan's economic welfare in 2016 with that in 2017. [5 points]

ELECTIVE: CHOOSE PROBLEM 7 OR PROBLEM 8

PROBLEM 7 (20 POINTS)

a. Explain the process of money creation in an economy. Also, explain briefly the role of the monetary authority, banking system and money multiplier in the process. [7 points]
b. What is the specific characteristic of an asset, which is required for it to be used as a medium of exchange? Explain briefly but clearly why. [6 points]
c. If Bank Indonesia increases the number of the sale of SBI while at the same time the Indonesian government decreases its spending, explain their impact on the short-run output and inflation. Use graphs to explain your answers. [7 points]

PROBLEM 8 (20 POINTS)

a. Using the data of Indonesia's real GDP as shown in the table, calculate the real GDP per capita for every year. Also, calculate the growth rate of the real GDP per capita from year 2014 to year 2016. [6 points]

YEAR	REAL GDP (2010 PRICES) (IN MILLION)	POPULATION (IN MILLION)
2014	8,564,866,600	252
2016	9,433,034,400	254

b. Explain how productivity may affect a country's standard of living! [7 points]

c. South Korea is currently the fourth largest economy in Asia and ranks 11 in the world. Historically, South Korea is a country that formerly received the Official Development Assistance (ODA) of OECD. This amazing phenomenon can be explained by the *catch-up effect*. The catch-up effect explains how a low-income country is able to grow faster that the high-income country. Unfortunately, the catch-up effect phenomenon may not occur for a number of countries. Identify and explain factors impeding a low-income country to catch-up the high-income country! [7 points]

PLEASE ENJOY WORKING ALONE