



FACULTY OF ECONOMICS AND BUSINESS

INTERNATIONAL UNDERGRADUATE PROGRAM IN ECONOMICS AND BUSINESS

MID EXAM (EVEN SEMESTER 2018-2019)

SUBJECT : Introductory Economics 2 / Introductory Macroeconomics (ECEU600203)
DATE : 28 March 2019
DURATION : 180 minutes (3 hours)
MECHANISM: closed book, no-pencil, non-programmable calculator

NOTE:

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

PROBLEM 1 (20 POINTS)

” GDP is the market value of all final goods and services produced within a given period of a time by factors of production located within a country”

- a. Explain the meaning of the definition of GDP above. [4 points]
- b. Do you think GDP can be used as a measure of a country's welfare? Explain! [3 points]
- c. Which of the following transactions is counted / not counted in GDP and explain briefly why it is counted/ not counted! [5 points]
 - i. The government pays retirement benefits
 - ii. An international company is expanding its business by issuing new shares in the financial capital markets
 - iii. Your mother hires a housemaid to help her cleaning the house
 - iv. Your father bought you a used car as birthday present
 - v. An investor pays a broker to help him manage his investments
- d. Below is the data of the output of Kidzania country that produces only 1 type of output in its economy. The country's production and prices are as follows:

Year	Unit Produced	Price per unit
2015	10	10
2016	12	20
2017	15	30
2018	20	40

Using the information above, calculate:

- i. Nominal GDP from 2015 to 2018. [2 points]
- ii. Real GDP from 2015 to 2018, using 2015 as the base year. [2 points]
- iii. GDP Deflator from 2015 to 2018, using 2015 as the base year. [2 points]
- iv. The inflation rate from 2017 to 2018. [2 points]

PROBLEM 2 (16 POINTS)

- a. People's standard of living around the world is determined by their productivity. Some important factors that affect productivity are: physical capital per worker, human capital per worker, natural resources per worker, and technology knowledge. Explain how each factor affects productivity. [8 points]
- b. Government can play an active role in raising productivity and standard of living through some policies that improve domestic saving and investment, foreign investment, education, health and nutrition, research and development, and property right. Choose **four** policies and explain how each of them can raise productivity and standard of living. [8 points]

PROBLEM 3 (20 POINTS)

"He is not yet 25 years old. He wears an orange Supreme t-shirt. He has a smooth face. There is a glass of coffee in his table. Ignoring his surroundings, he is busy with his smartphone. I do not know him. But from the way he looks, he is probably from a wealthy family. It means that even if he does not work, his family can economically support him. My thought goes to the statistics from the Statistics of Indonesia (BPS) about youth employment aged 15 to 24 years old"

(Source: Basri, Muhamad Chatib. 2019. "PERSPEKTIF: Yang Muda, yang Menganggur". Bisnis Indonesia, 18 Februari 2019.

<http://koran.bisnis.com/read/20190218/244/889916/perspektif-yang-muda-yang-menganggur>)

- a. The story above describes a young man that can be categorized as unemployed. How can a person be categorized as unemployed? What is the definition of the term labor force? If the young man in the story has just graduated a week ago and he is currently still in waiting for his job that will start next week, what is the type of unemployment he falls into? [5 points]
- b. The country of Unicorn has an adult population of 205.2 million people with 131.5 million were employed and 6.2 million were unemployed. Please calculate the labor force, labor force participation rate, and unemployment rate of Unicorn. [6 points]
- c. Please explain why unemployment always exists in the economy? [3 points]
- d. If the labor union in the province of Decacorn demands higher wage than the equilibrium wage of 4 rupiah per hour, using graph, explain how the increase of wage might affect the labor market in Decacorn. Will the labor get the benefit from the increase in wage? Explain! [6 points]

PROBLEM 4 (20 POINTS)

Macroeconomic experts need to understand the working of the financial market and the way events and policies may affect it

- a. Explain the term private saving, public saving, national saving, and investment according to macroeconomic theory. Show and explain the relationships among those variables using the appropriate equation. **[6 points]**
- b. Suppose the GDP is Rp 16 trillion, tax is Rp 3 trillion, private saving is Rp 1 trillion, while public saving is Rp 0.4 trillion. Assuming a closed economy, calculate the magnitude of household consumption, government expenditure, and investment in the country. **[4 points]**
- c. Let say that the government of Happynesia plans to borrow Rp 5 trillion more next year to finance various infrastructure projects. Explain what would be the impact of such policy on the interest rate, investment, private saving, public saving, and national saving. Use the graph of demand for and supply of loanable funds to support your answer. **[6 points]**
- d. Suppose that PT Astra Honda Motor (AHM) plans to build a new plant in Karawang, West Java. Explain whether the increase in the interest rate may have an impact on its plan. Give one example of the investment incentive that the government may give to encourage AHM to stay in its plan to build the new plant. **[4 points]**

PROBLEM 5 (24 POINTS)

- a. Explain the functions of money and give one example each! **[6 points]**
- b. Using graph, explain what would happen to money supply (Ms), money demand (Md), the value of money, and the price level if:
 - i. Bank Indonesia sells its bonds. **[3 points]**
 - ii. People decide to hold less cash. **[3 points]**

Fender Island Republic, a small new country in the Caribbean Islands, has 20 billion of paper money worth FID 1,000 each and 50 billion coins worth FID 100 each.

- c. If the entire population hold money in the form of currency, what will be the supply of money in the country? **[2 points]**
- d. Suppose that 60 percent of the money is saved as demand deposits while the rest is still held as currency. If Bank of Fender (BoF), the country's central bank, decides a 10 percent reserve ratio on commercial banks, what will be the maximum supply of money in the country? **[2 points]**
- e. Describe 2 other quantitative policies that can be used by BoF to control the money supply. Explain why BoF may not have full control on the money supply. **[4 points]**
- f. Suppose that the money supply of the country is FID 25 trillion, while the nominal GDP is FID 5,000 trillion and its real GDP is 2,500 trillion. What is the price level and what is the velocity of money in RKF? **[2 points]**
- g. Suppose the velocity is constant and the economy's output of goods and services rises by 5 percent each year. If BoF aims to keep the money supply constant, what will happen to the nominal GDP and the price level next year? **[2 points]**

*** Enjoy working alone ***