



FINAL EXAMINATION
NOVEMBER 2023

COURSE TITLE	INTERMEDIATE MACROECONOMICS
COURSE CODE	TECO3223
DATE/DAY	22 FEBRUARY 2024 / THURSDAY
TIME/DURATION	09:00 AM - 11:00 AM / 02 Hour(s) 00 Minute(s)

INSTRUCTIONS TO CANDIDATES :

1. Please read the instruction under each section carefully.
2. Candidates are reminded not to bring into examination hall/room any form of written materials or electronic gadget except for stationery that is permitted by the Invigilator.
3. Students who are caught breaching the Examination Rules and Regulation will be charged with an academic dishonesty and if found guilty of the offence, the maximum penalty is expulsion from the University.

(This Question Paper consists of 2 Printed Pages including front page)

*****DO NOT OPEN THE QUESTION PAPER UNTIL YOU ARE TOLD TO DO SO*****

This question paper consists of TWO (2) questions. Answer ALL questions in the answer booklet provided. [100 MARKS]

Question 1 (55 Marks)

- a) Explain Keynes' three conjectures on consumption and the Kuznet's Puzzle. (12 marks)
- b) Arif has a habit of saving 30% of his income, while Ahmad sustains his expenditure by borrowing. If interest rate increases, using the Fisher's Inter-temporal Consumption model explain what changes we can expect to happen to Arif's and Ahmad's consumption in period 1 and period 2, respectively. (12 marks)
- c) For the year of 2023, Jane receives a bonus amounting to 3 months of her bonus but receives no salary increment. Based on Friedman's Permanent Income Hypothesis, determine whether Jane is likely to spend more given her bonus. Explain your answer. (9 marks)
- d) If Malaysia were to relax its foreign labour policy, it is expected to receive a high volume of foreign labour. Based on the Neo-Classical Theory of Investment, analyze how Malaysia's gross fixed capital investment will change following the policy relaxation. (12 marks)
- e) Explain THREE (3) reasons for a firm to hold inventory. (10 marks)

Question 2 (45 marks)

- a) Explain THREE (3) factors that determine long-run aggregate supply (15 marks)
- b) Based on the Phillips Curve, explain how a central bank can reduce inflation without causing higher unemployment. Explain your answer with a Phillips Curve diagram. (15 marks)
- c) The sticky-price model is given by the following function:

$$P = sP^e + (1 - s)[P + a(Y - \bar{Y})]$$

where P^e is the expected price level, Y is the income level and \bar{Y} is the average income level and P is the prevailing price level. s and a are the respective parameters.

If the number of firms with sticky prices has dropped from 70 to 65 out of 100 firms, explain how this development affects the relationship between inflation and income growth. (15 marks)

*** END OF QUESTION PAPER ***