



THE PAPUA NEW GUINEA UNIVERSITY OF TECHNOLOGY
DEPARTMENT OF ARCHITECTURE AND CONSTRUCTION MANAGEMENT
CM 124 - CONSTRUCTION ECONOMICS
BARC 1 & BACM 1
FINAL EXAMINATION - 2021

Room: ST1
Date: Friday 29th November 2021
Time: 12:50 – 4:00 pm

INSTRUCTIONS TO CANDIDATES:

- 1. You have 10 minutes to read the Paper. You must not begin writing during this time.**
- 2. There are three sections to this exam (Section A, B, C). You must attempt all questions. This exam is worth 40% of your final assessment.**
- 3. All calculations and answers must be written in the answer booklet provided. Please write your name and student ID number on the answer booklet. Do it now.**
- 4. Text books and notes are not permitted in the examination room. You may use your calculator.**
- 5. Cheating is an offence and offenders will be penalized.**

SECTION A: MULTIPLE CHOICE QUESTIONS

(20 Marks)

INSTRUCTION: Circle the letter of the most appropriate answer. If you make a mistake, put a cross, (x), on the incorrect answer and circle the correct answer.

1. The supply curve has a positive slope because:
 - a. economist have traditionally drawn it this way
 - b. consumers can switch to buying other substitute goods
 - c. the demand curve is negatively sloped
 - d. higher prices are necessary to cover higher costs of production

2. When there is a general increase in demand:
 - a. the demand curve shifts toward the origin of the graph
 - b. the demand curve twists clockwise
 - c. the demand curve shifts away from the origin of the graph
 - d. there is a movement along the demand curve.

3. When income increases more of these goods will be demanded. These types of goods are called:
 - a. inferior goods
 - b. complementary goods
 - c. substitute goods
 - d. normal goods

4. The situation wherein a decline in price leads to increased purchasing power for the consumer, thus allowing him or her to purchase more of the commodity.
 - a. substitution effect
 - b. income effect
 - c. price effect
 - d. effect on other determinants

5. One of the common problems facing developing countries:
 - a. lack of capital
 - b. high growth rates
 - c. different climates
 - d. producing two export crops

6. Expansion in the money supply:
 - a. will raise demand and cause price to rise
 - b. will lead to a recession
 - c. will reduce the level of economic activity
 - d. will reduce demand and cause price to fall

7. If the Central Bank reduces the discount rate:
- less money will be borrowed
 - Commercial banks will refuse to borrow
 - this has the effect of deflating the economy
 - this will increase money supply.
8. Liquid Assets Ratio:
- is the percentage of deposits that the banks must hold to meet customer demand
 - is the percentage of lending that the banks make to the public
 - cash that is available for deposit as 'special deposit'
 - rate at which cash is converted into liquid form
9. Injections are:
- expenditures not spend directly on domestically produced goods
 - consumption expenditure and investment expenditure
 - savings and imports
 - $T + S - NX$
10. A deficit or a surplus in a nation's balance of payments is measured by subtracting all the debits from all the credits in the:
- current account
 - capital accounts
 - current, capital and official reserve accounts
 - capital and official reserve accounts
11. Under a fixed exchange rate system, a deficit in a nation's balance of payments is corrected by
- revaluation of domestic currency
 - an appreciation of domestic currency
 - a devaluation of domestic currency
 - a depreciation of foreign currency
12. Which of the following statement is true?
- A peak occurs at the start of an economic recovery
 - A trough occurs at the start of an economic decline
 - A peak occurs when economic activity starts decreasing
 - A trough occurs when economic activity starts decreasing

13. If the export and import index is 105 and 106 respectively, what is the terms of trade?
- a. 101
 - b. 99
 - c. 110
 - d. 100
14. Frictional employment exists when:
- a. there is a fall in aggregate demand
 - b. workers are seasonally unemployed
 - c. workers lacked the skills necessary to be employed
 - d. potential GDP exceeds real GDP
15. Cost-push inflation exists when:
- a. aggregate demand increases
 - b. suppliers used their market power to push up prices
 - c. potential output is growing faster than real GDP
 - d. aggregate supply increases
16. The Law of diminishing returns states that
- a. in the long run all costs are constant
 - b. in the short run all costs are variable
 - c. in the long run all costs are variable
 - d. in the short run all costs will diminish
17. The difference between a country's exports and imports is referred to as
- a. balance of trade
 - b. balance of invisible trade
 - c. balance of payments
 - d. terms of trade
18. If demand for a good is perfectly inelastic, that means:
- a. $e = 0$
 - b. $e = \infty$
 - c. $e = 1$
 - d. $e < 1$
19. To control inflation the government should
- a. reduced income taxes
 - b. plan for budget deficit
 - c. sell treasury bills to the commercial banks
 - d. purchased securities from the public

20. Net private transfers in the current account of the balance of payment refers to
- a. foreign aid and grants from overseas
 - b. profits and salaries by residents
 - c. subsidies and social benefits
 - d. borrowings made by citizens

SECTION B: SHORT ANSWER QUESTIONS **30 marks**

Q1. Define 4 marks

- a) aggregate demand
- b) balance of payment

Q2, Explain the following terms: 10 marks

- a) embargo 2 marks
- b) comparative advantage 3 marks
- c) Gross National Product 5 marks

Q3. Distinguish between re-current expenditure and capital expenditure. 6 marks

Q4. Suppose that a country is experiencing a recession. As an economist you are requested to apply monetary and fiscal policies to help in solving the problem. Use any monetary or fiscal policy instrument to explain your answer. 10 marks

SECTION C: PROBLEM SOLVING**50 MARKS**

Q1. Suppose you have been given the following information about the market for rental housing in Pom city.
14 marks

Rent (Kina per month)	Quantity demanded	Quantity supplied
100	20, 000	0
150	15, 000	5, 000
200	10, 000	10, 000
250	5, 000	15, 000
300	2, 500	20, 000
350	1, 500	25, 000

- (a) What is the equilibrium rent?
- (b) What is the equilibrium quantity of rented housing?
- (c) If demand for housing increases by 10 000.
(i) What is the new equilibrium price?
(ii) What is the new equilibrium quantity?
- (d) Now suppose that a rent ceiling of K150 a month is imposed in the housing market:
(i) What is the quantity of housing demanded?
(ii) What is the quantity of housing supplied?
(iii) Is there excess demand for or excess supply in this situation?

Q2. Study the following demand schedule.**10 marks**

A firm's demand schedule for tapes is as shown:

Price (K/Tape)	Quantity sold/day (Tapes/week)
9	8
8	12
7	16
6	20
5	24
4	28
3	32
2	36
1	40

Use the point elasticity method to calculate the price elasticity of demand for the tapes indicated and interpret your result (i.e., increase or reduce price)

- i) a fall in price from K4 to K3
- ii) an increase in price from K6 to K7

Q3. The table below shows the CPI for a country called Cape Arkona.**6 marks**

CAPE ARKONA: Consumer Price Index: 2014 - 17		
Year	CPI	Inflation rate (% per year)
31.12.2013	193.0	
31.12.2014	186.6	
31.12.2015	195.0	
31.12.2016	199.4	

Calculate the rate of inflation for:

- (a) 2013 to 2014 – Base year 2013
- (b) 2014 to 2015 – Base year 2014
- (c) 2015 to 2016 – Base year 2015

Q4. Calculate the Income elasticity of demand.

(4 marks)

Mary's income increases from K300 to K400 and consequently her demand for meat increases from 159kg to 250 kg, Calculate the income elasticity of demand for meat.

Q5. The following table shows the production possibilities for Portland and New Foundland in a year.

10 marks

Determine the commodity that each country should produce.

Production possibilities for Portland

Coffee	Taro
20 units	0 units
0 units	60 units

Production possibilities for New Found land

Coffee	Taro
40 units	0 units
0 units	80 units

Q6. Use the value added approach to calculate GDP.

6 marks

<u>Stages of production</u>	<u>Value of output (K)</u>	<u>Value added (K)</u>
1. Logs	40 000	
2. Sawn Timber	48 000	
3. Furniture	88 000	
GDP:		

END OF EXAMINATION!