



INTEGRATED MACROECONOMICS

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COMMERCE DEPARTMENT

INTEGRATED MACROECONOMICS

1st Edition

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INTEGRATED MACROECONOMICS

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Acknowledgment

We have been blessed by Allah the Almighty for the completion of this eBook and we dedicate it to our beloved spouse and lovely kids.

Endless thanks to the management teams of the Politeknik Sultan Salahuddin Abdul Aziz Shah who have created a support group to help launch the writing of this eBook.

We would like to extend our deepest gratitude to all who have directly and indirectly guided us in the writing of the first edition of this eBook.

Preface

eBook Integrated Macroeconomics is specially written for polytechnic students, in semester two who are pursuing diploma programmes in business studies or others. This eBook also design and cater guidelines for class have many student in one class. Students of another institutes of higher learning in finance, commerce, economic may also find this book useful.

Designed in line with latest syllabus prescribed in Malaysian Polytechnic, it covers three chapters such as Introduction to Macroeconomics, National Income Accounting and The Role of Government. Each chapter support with express note, exercise in diversified, and real case study. The main objective to guidelines students and junior lecturer to understand every topic.

Lastly, we would like to acknowledge the assist an encouragement of our Director, Head of Commerce Department and friends who have contributed to the successful this book.

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CHAPTER 1

Introduction To Macroeconomics



1.1

The Macroeconomics Goals, Aggregate Demand
And Aggregate Supply

1.2

IR 4.0 and Economic Gig's

1.1.1 Introduction To Macroeconomics

Macroeconomic VS Microeconomics

Macroeconomics is the studies the aggregate behavior of the nation's economy
Example, study the problem of inflation, unemployment and BOP

Microeconomics studies individual economics units.
Example, study the price, Household, firm and government



Component of Macroeconomics

1. Household



2. Firms



3. Government



4. International Sector



Macroeconomic Problems

1. Trade cycle



Trade Cycle have :

- a. Peak
- b. Recession
- c. Trough
- d. Recovery

2. Unemployment

The resource not use or working.
Commonly, refer to labor not working, Occur at trough in trade cycle

3. Inflation

General price level increasing continuously. Occur at peak in trade cycle.

4. Deficit Balance of Payment (BOP)

Occur when total import more than total export. When deficit BOP, effect to reduce to Malaysia exchange rate



1.1.2 Three Government Policies to Manage Economics



01

Fiscal Policy

Tools of FP : Taxes and Government Expenditure. Manage by Ministry of Finance



02

Monetary Policy

Tools of MP : SRR, MLR, OMO, Selecting Credit, Moral Persuasion etc. Manage by Bank Negara Malaysia



03

Growth / Direct Control Policy

Tools of DP : Upgrade skill, Price Control, Development of new land, modernization of sector etc. Manage by Ministry and Government Agency

1.1.3 Aggregate Demand and Aggregate Supply

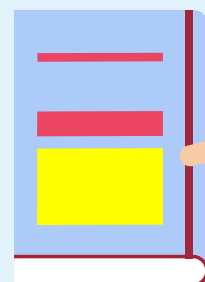


Aggregate Demand (AD)

AD is the total output demanded for entire economy in one year.

Aggregate Supply (AS)

AS is total output supplied for entire economy in one year.



1.1.4 Macroeconomic Goals

Achieving Full Employment

1

- The government will adjust resource allocation for better distribution for the composition of domestic output. The expansionary policy will reduce the unemployment rate and increase the wage.



2

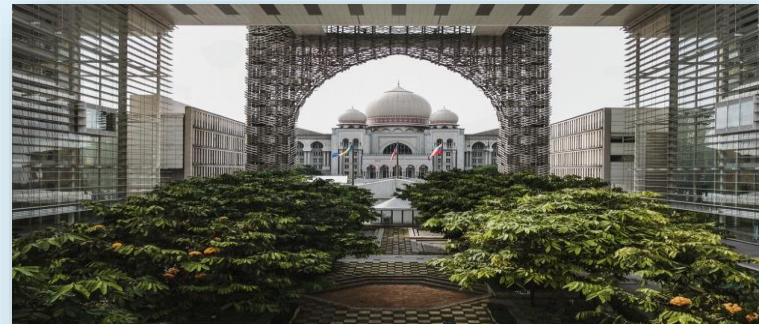
Maintaining Price Stability

- Price stability is refer to minimum changes in general price levels. So, no rapid inflation or deflation.

Sustainable Economic Growth

3

-To achieve economic growth, the government should encourage investment, increase government expenditure dan reduce interest rate. The stability government is more important to capture the investor..



4

Equitable Distribution of income

- Government implement more economics policies to create more job, able to access education and public healthcare. The Pan Borneo Highway example is a create more jobs, easy and modernization transportation between urban and sub-urban.

5

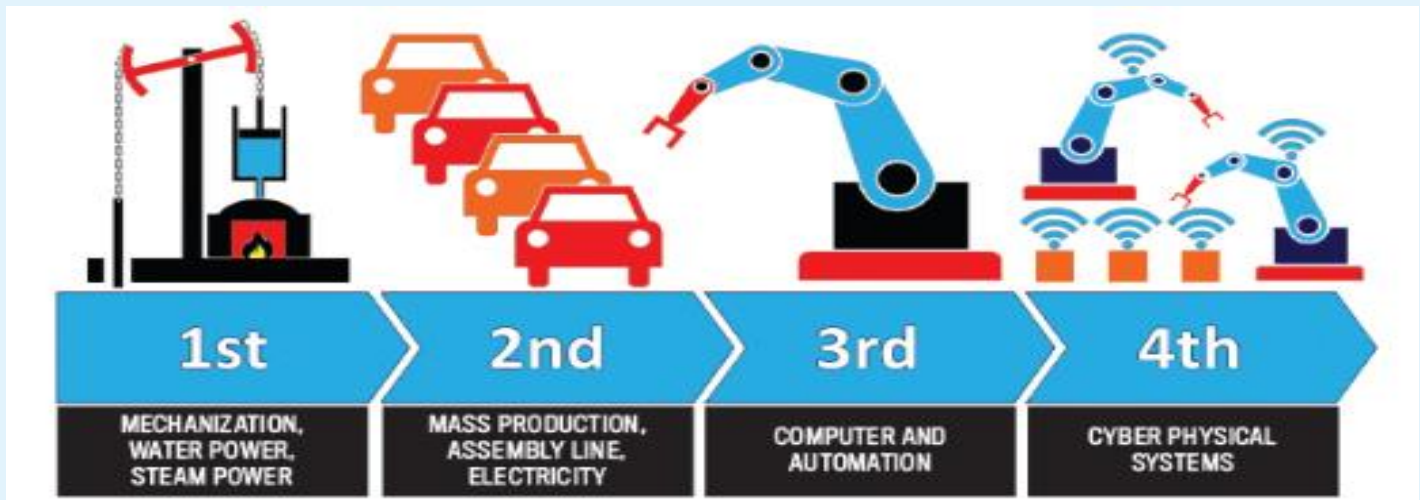
Competitive International trade and Equilibrium in BOP

-Trade between country believed to reach a higher of consumption and aggregate economic. BOP can achieve when total export equal to total import. WTO dan the government very important organization to make sure BOP is a competitive



1.2.1 4.0 Industrial Revolution

HISTORY of IR 4.0



1IR

The first industrial revolution came with the advent of mechanisation, steam power and water power.

Example, 1IR maybe between 1760 and 1820, or 1840.

The first generation of train using coal. Popular in US 'cowboy generation' and Europe



2IR

This was followed by the second industrial revolution, which revolved around mass production and assembly lines using electricity. Also known as the Technological Revolution, is the period between 1871 and 1914

Train are most popular transportation in world for this phase include KTM in Malaya.

1.2.1 4.0 Industrial Revolution

3IR



The **third industrial revolution** came with electronics, I.T. systems and automation, which led to the **fourth industrial revolution** that is associated with cyber physical systems, also known as the Digital Revolution, occurred in the late 20th century. KTM introduce Commuter and ETS in this phase.

4IR



4IR refers to the fourth industrial revolution or digitalization, although it is concerned with areas that are not usually classified as industry applications in their own right, such as Klang Valley Smart Cities. IOT, cloud computing, smart factory, artificial intelligence and others can work together. This will allow for automated and autonomous manufacturing with joined-up systems that can cooperate with each other. 4IR maybe starting in 2011 when using IOT in smart cities.

5IR in coming soon??
2030?, 2040?
Human + smart robotic
work together ?

1.2.2 The Gig Economy of Malaysia

A gig economy is a free market system where temporary positions are common, and organizations hire independent workers for short-term commitments instead of permanent positions. The jobs are usually in the service sector, and transactions are task-based

Parties involved in a gig economy include part-time workers, mountain guides, freelancers, software developers, lawyers, accountants/ financial advisors, specialists, project workers, and independent contractors, taxi driver and others.

Benefits of a gig economy

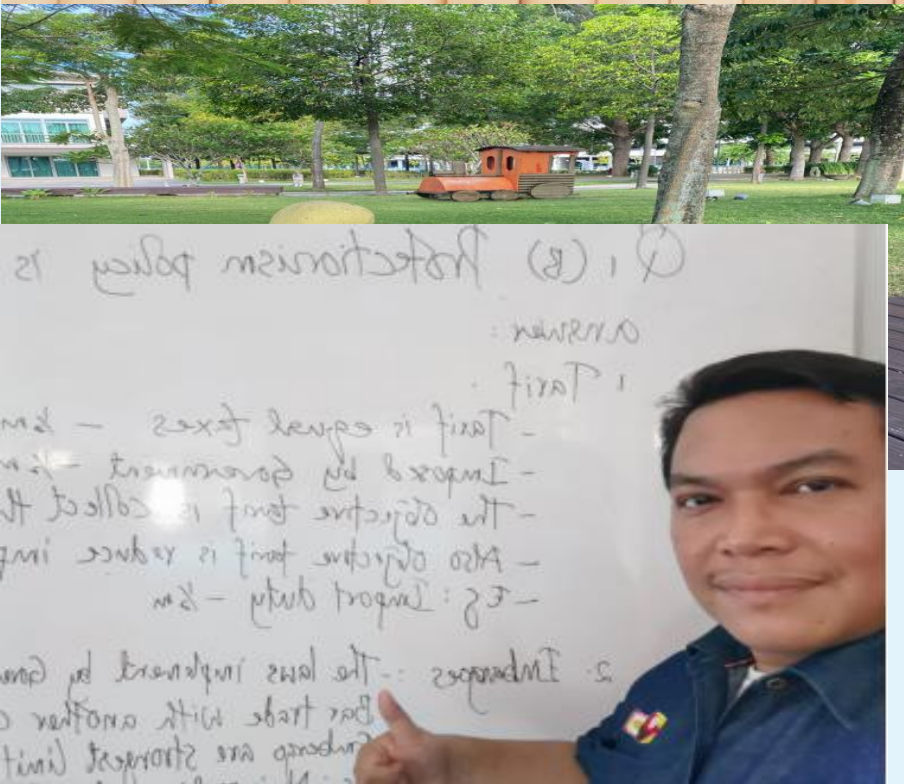
Enables the freelancer to select temporary jobs and projects with high flexibility, freedom, and lucrative pay. In Malaysia, by 2018, a quarter of the Malaysian workforce were freelancers. That is close to 4 million freelancers, and the number is growing.

The future of a gig economy

The Malaysian gig economy is set to bring in RM10 trillion by 2025. This is because the industry is rapidly growing after pasca-covid19. Generally, the gig economy has helped improved Malaysia's GDP



EXPRES MEMORY



1. Microeconomics studies individual economics unit. e.g salary, decisions between household & firm.
2. Macroeconomics studies the aggregate behaviour, e.g employment, inflation, fiscal & monetary policy etc.
3. The four major macroeconomic goal: Full employment, Price stability, Economic growth, and Equitable distribution of income
4. Three Government policies to manages the economics: a. Fiscal policy, b. Monetary Policy and 3. Growth/Direct Policy.
5. Components in macroeconomics: Domestic Expenditure by household, Investment by Firm, Government's Expenditure and Net Export
6. Aggregate Demand (AD) is the total output demanded for entire economy in one year.
7. Aggregate Supply (AS) is total output supplied for entire economy in one year.
8. Market Equilibrium occur when $AD=AS$

QUESTION

1. The following is the goal of macroeconomics except:

- A. Achieve full employment
- B. Economic growth and boom
- C. Control the Union Labour
- D. Equitable distribution of income

2. Which of the following issues would a macroeconomist concentrate on?

- A. The price of durians musang king
- B. The profits of Proton National cars.
- C. The market for housing in country
- D. The unemployment rate in Malaysia

3. Macroeconomics is the study of economics from the viewpoint of

- A. The entire economy
- B. Individual firms spending
- C. The individual household
- D. Local Government expenditure

4. Which of the following is a part of macroeconomics statement?

- A. The rate of inflation drop to 4.3 percent.
- B. The price of durians increase by 15% last year
- C. Geely Proton' profit increased in year 2021
- D. The productivity of Perwaja Steel works increased by 10%

5. These are all Malaysian macroeconomics objectives except:

- A. Full employment
- B. General price stability
- C. Achieve the high Aggregate Demand
- D. Equitable distribution of income

6. Which of the following does not refer to the economic policy set by the Malaysian government?

- A. Fiscal policy
- B. Monetary policy
- C. Banking policy
- D. Growth policy

7. The total demand for goods and services in an entire economy is known as

- A. Aggregate demand
- B. Aggregate Supply
- C. Gross national demand
- D. Economy demand

8. The aggregate demand curve

- A. Slopes upward
- B. Slopes downward
- C. perfectly inelastic
- D. None of the above

9. The aggregate supply curve is

- A. A perfectly elastic curve
- B. A positive relationship between inflation and the unemployment
- C. Positive-sloped in the short run
- D. A positive relationship between the price level and national output

10. Equilibrium in macroeconomics occur when

- A. Total expenditure equal to supply
- B. Supply is greater than demand
- C. Aggregate demand is equal to aggregate supply
- D. Total exports are equal to imports



CASE STUDY

Economic and Financial Developments in Malaysia in the First Quarter of 2021

The Malaysian economy registered a smaller decline of 0.5% in the first quarter (4Q 2020: -3.4%). The growth performance was supported mainly by the improvement in domestic demand and robust exports performance, particularly for E&E products. Growth was also supported by the continued policy measures. The imposition of the Second Movement Control Order (MCO 2.0) and the continued closure of international borders and restrictions on inter-state travel, however, weighed on economic activity. Nevertheless, as restrictions were eased in February and March, economic activity gradually picked up. Governor Datuk Nor Shamsiah said “The better overall performance reflects the improvement in domestic demand and the strength in our exports.”

All economic sectors registered an improvement, particularly in the manufacturing sector. On the expenditure side, growth was driven by better private sector expenditure and strong exports. On a quarter-on-quarter seasonally-adjusted basis, the economy registered a growth of 2.7% (4Q 2020: -1.5%).

Headline inflation turned positive to 0.5% during the quarter (4Q 2020: -1.5%). This was attributable to the positive albeit low fuel inflation following the base effect, as well as the lapse in the effect from the tiered electricity tariff rebate which was implemented between April to December 2020. Core inflation moderated to 0.7%, mainly reflecting the lower inflation.

The Malaysian economy remains on track for a recovery in 2021, supported by better external and domestic demand

Despite the recent re-imposition of containment measures, the impact on growth is expected to be less severe than that experienced in 2020, as almost all economic sectors are allowed to operate. Overall, the growth recovery will benefit from better global demand, increased public and private sector expenditure as well as continued policy support. This will also be reflected in the recovery in labour market conditions, especially in the gradual improvement in hiring activity.

Higher production from existing and new manufacturing facilities, particularly in the E&E and primary-related sub-sectors, as well as oil and gas facilities will provide a further impetus to growth. The roll-out of the domestic COVID-19 vaccine programme will also lift sentiments and contribute towards recovery in economic activity. Nevertheless, the pace of recovery will be uneven across economic sectors.

Bank Negara Malaysia
11 May 2021

Discussion

- a) The article related to Fiscal Policy or Monetary Policy ? Give yours reasons.
- b) Discuss the impact of lockdown to the Malaysian economy.

CHAPTER 2

National Income Accounting



2.1

Concepts Of National Income Accounting

2.2

Methods Of Measuring National Income

2.3

Uses Of National Income

2.4

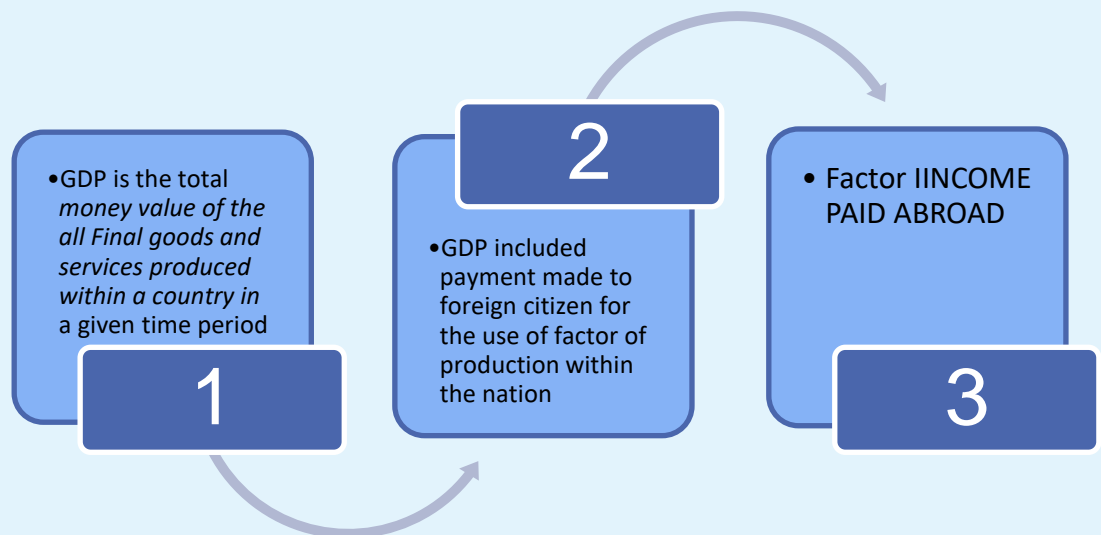
Problem Of Calculating National Income

2.1.1 Concept Of National Income



GROSS DOMESTIC PRODUCT (GDP)

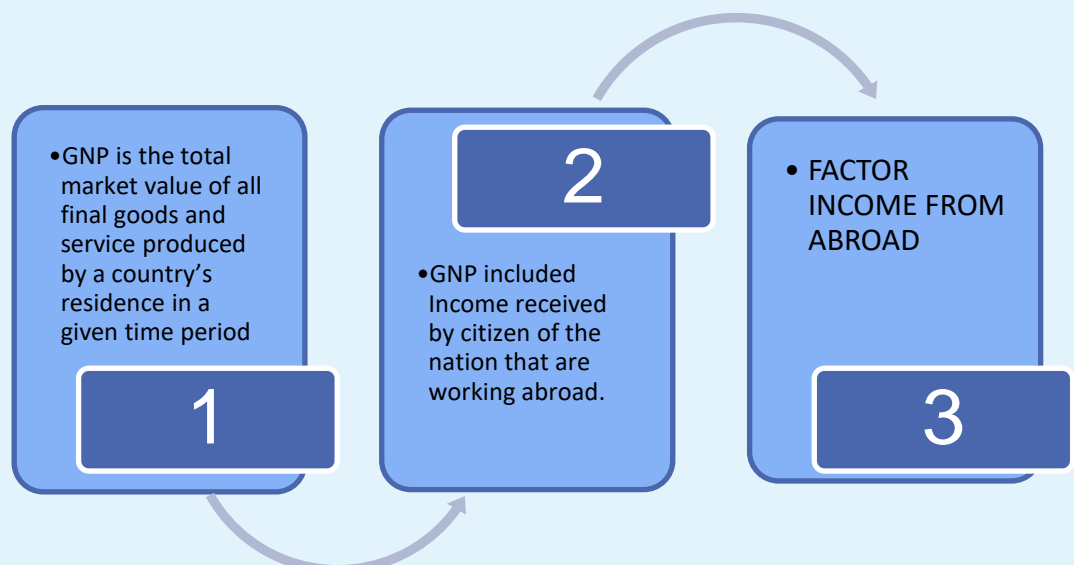
Gross domestic product (GDP) is the total final value of goods and services create by factors of production available within a nation in one year



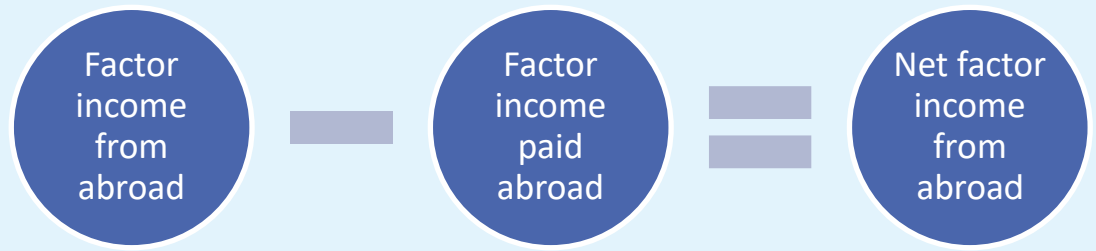
GROSS NATIONAL PRODUCT (GNP)



Gross National Product (GNP) is the total final value of goods and services product by factors of production owned by citizens of the nation, regardless of where they are located within one year



2.1.1 Concept Of National Income



**Net Factor Income
From Abroad**

Factor income from abroad > Factor income paid abroad

Net factor income from abroad (+)

Factor income from abroad < Factor income paid abroad

Net factor income from abroad (-)

**Factor Cost
Vs
Market price**

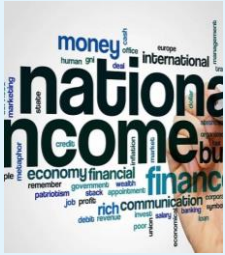
**MARKET
PRICE
(MP)**

- Market Price refers to the current price in the market through the forces of demand and supply

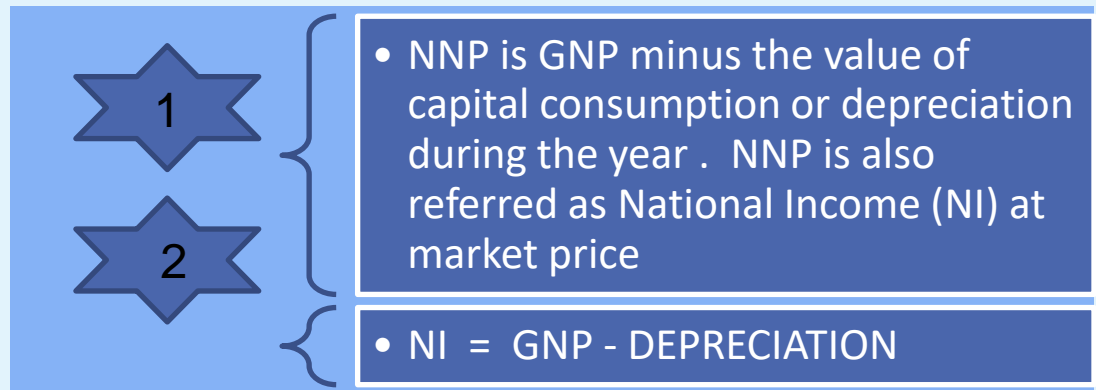
**FACTOR
COST
(FC)**

- Factor cost is the real prices that is earned by the producers or sellers. Producers or sellers receives subsidies from government

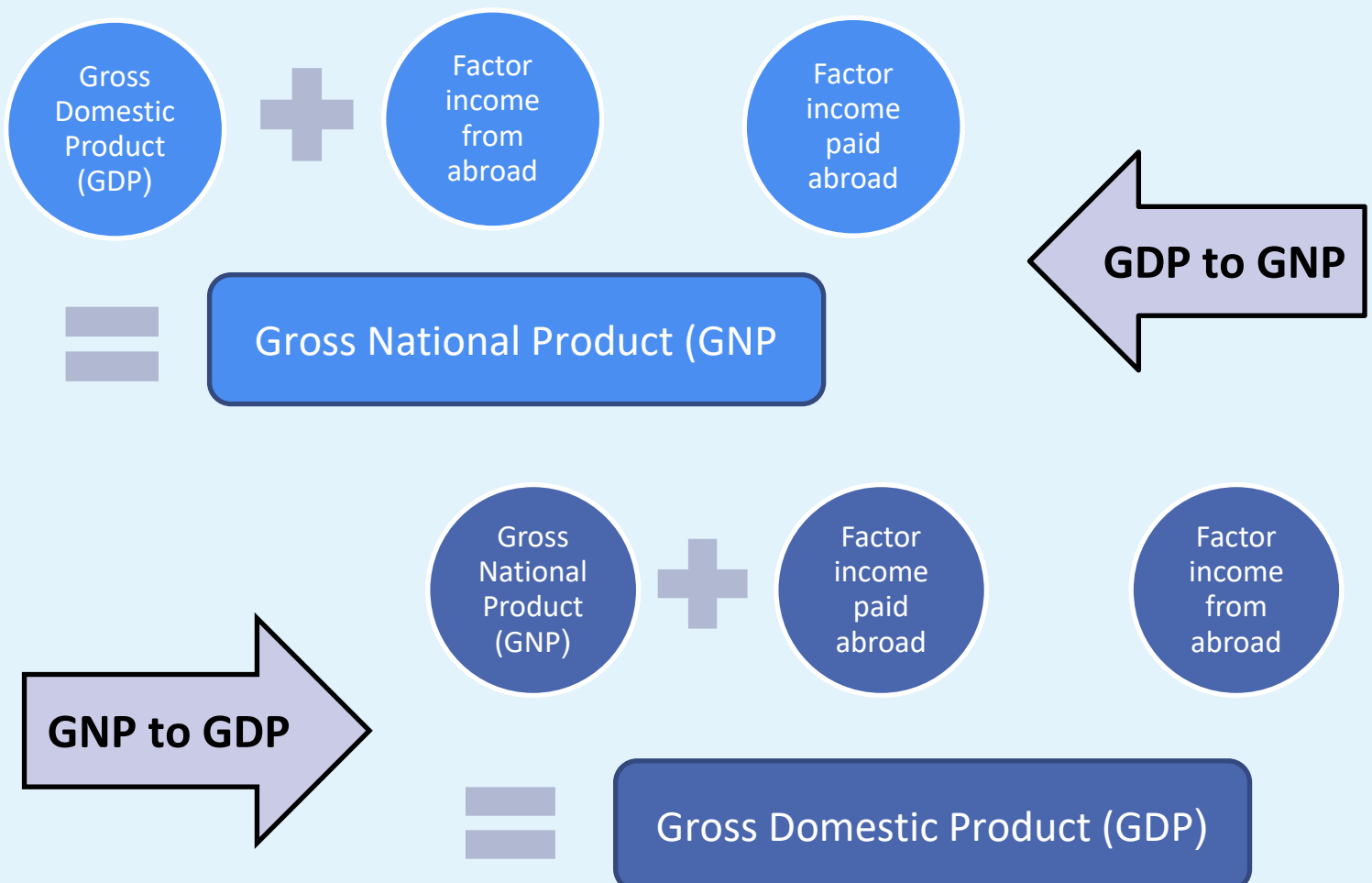
2.1.1 Concept Of National Income



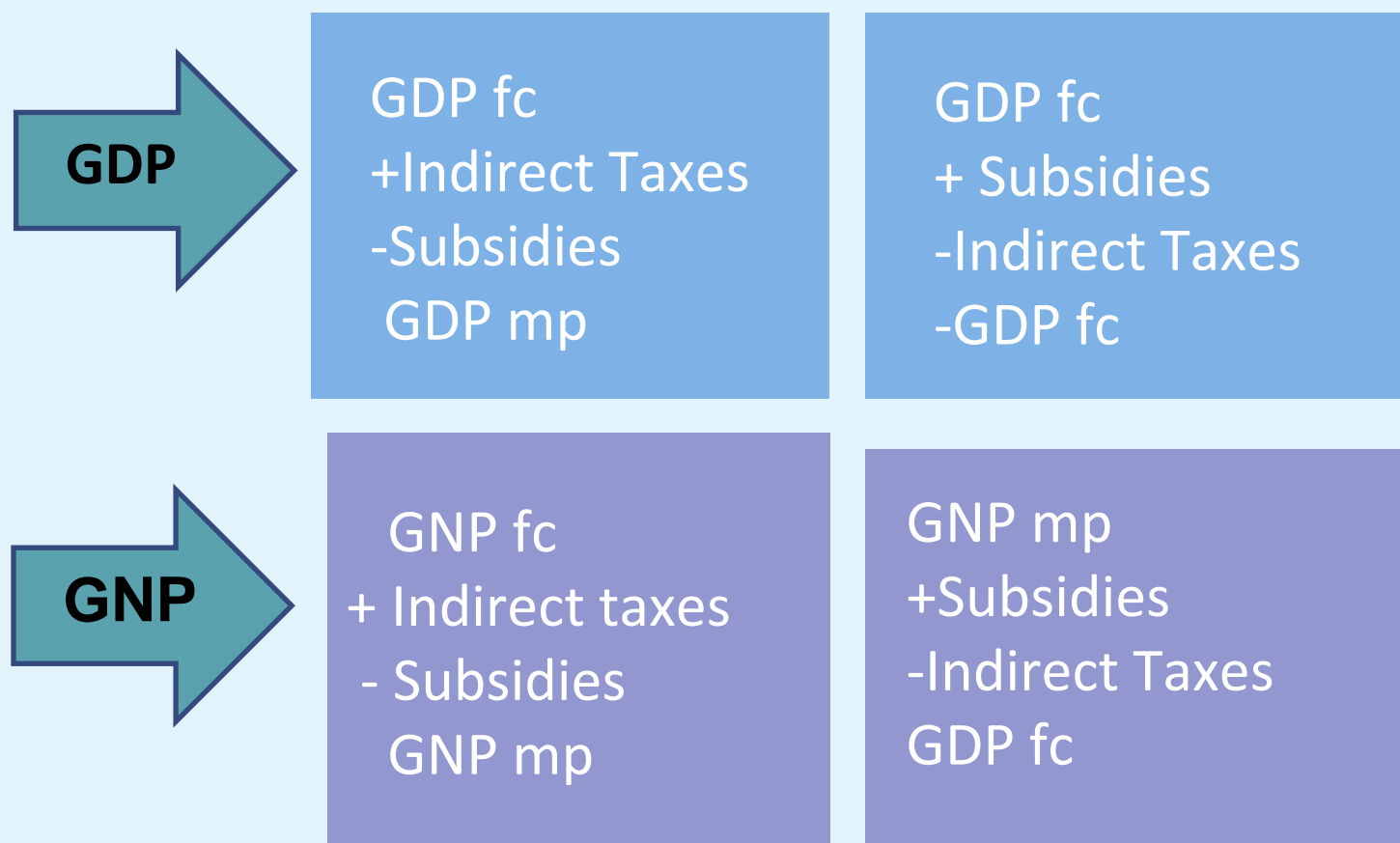
NNP is GNP minus the value of capital consumption or depreciation during the years. NNP is also referred as National Income (NI) at market prices.



2.1.2 Differences Of GDP & GNP



2.1.3 GDP & GNP At Market Price & Factor Cost

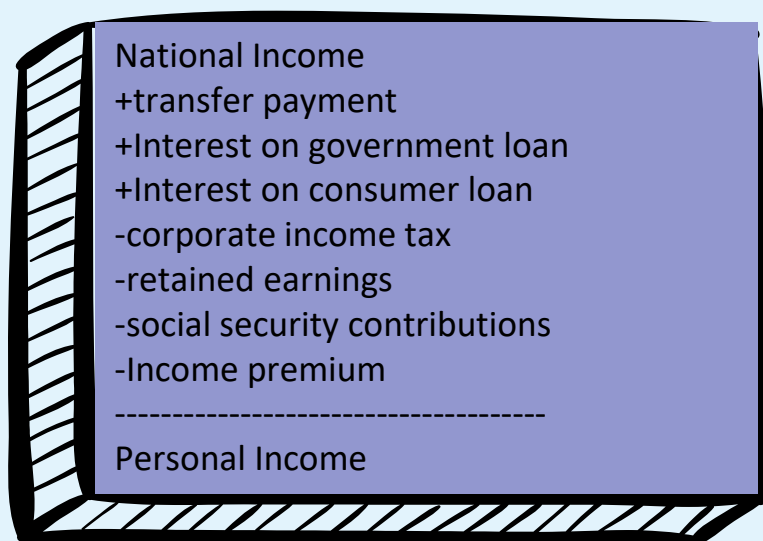


2.1.4 Personal Income



Personal Income

Personal income is the income that is actually received by individuals and households in a nation during a year.



2.1.5 Disposable Personal Income

Disposable personal income is the part of the personal income that is left after the payment of personal direct taxes

$$Y_d = PI - \text{Personal Income Tax}$$

2.1.6 Per Capita Income



Per capita income is the average income of the citizens of nation.

$$\text{Per capita income} = \frac{\text{National income}}{\text{Total population}}$$

2.1.7 Nominal/current vs. Real/fixed GDP

Nominal GDP measures a country's gross domestic product using current prices, without adjusting for inflation.

The nominal GDP formula relies on one of three measurement methods: income, production or expenditure.

Real GDP, which measures a country's economic output adjusted for the impact of inflation.

When calculating real GDP, a base year is selected to control for inflation; the real GDP figures capture the quantities of goods produced in different years using the prices from the same base year.

$$\text{Real GDP} = \frac{\text{Base year price index}}{\text{Current year price index}} \times \text{Nominal GDP}$$

2.2.1 Method Of Measuring National Income

INCOME METHODS



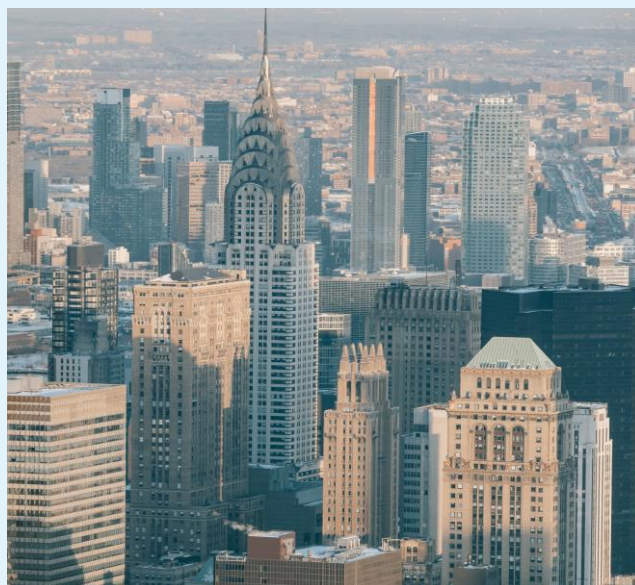
The income approach (factor cost) is a measure of the total factors income paid to various factors of production such as labor, capital, entrepreneurs and land in the production of the country's products. This method also measures the total income generated by each sector in the economy within the period of one year.

Salaries and wages		2,000
Net Interest		290
(i) Gross interest	460	
(ii) Interest on consumer loans (-)	60	
(iii) Interest on government loan (-)	110	
Rent		110
Private corporate profit		400
Companies profit (+)		500
(i) Dividends	120	
(ii) Undistributed profit	170	
(iii) Corporate income tax	210	
National Income		3,300

2.2.1 Method Of Measuring National Income

EXPENDITURE APPROACH

The Expenditure is a measure of the expenditure of local and foreign residents of a country on final goods and services within the period of one year



1. Household consumption expenditure (C)	2,500
2. Government Expenditure (G)	350
3. Gross Investment (private & public) (I)	350
4. Change in stocks (I)	100
5. Net Export (X – M)	100
Export 600	
Import(-) 500	
GDPmp	3,400
Factor income received from abroad (+)	800
Factor income paid to abroad (-)	700
GNPmp	3,500
Indirect taxes (-)	300
Subsidies (+)	150
GNPfc	3,350
Depreciation	50
NATIONAL INCOME	3,300

2.2.1 Method Of Measuring National Income

PRODUCT APPROACH



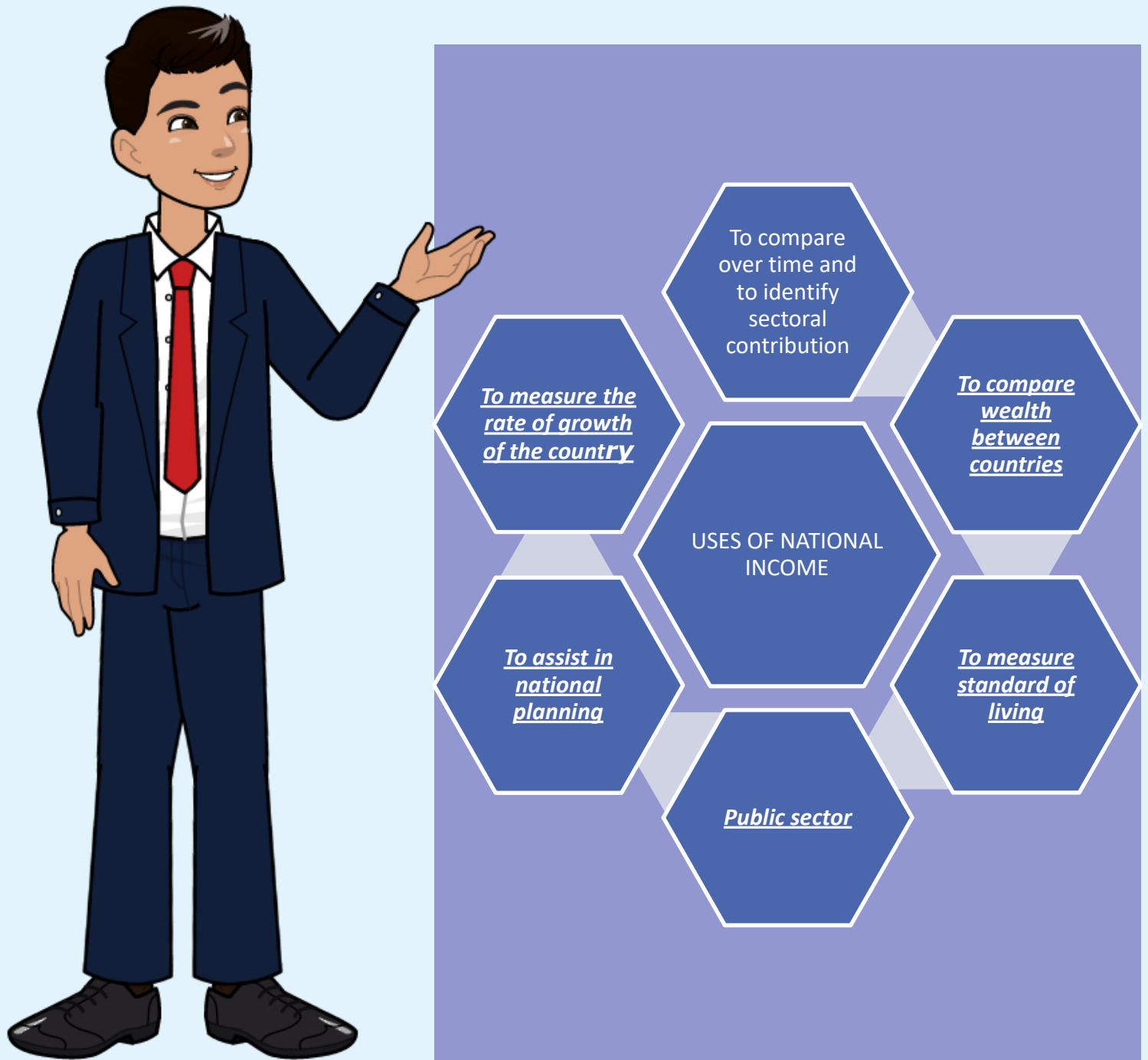
The product approach is a measure of the value of the country's total production within the period of one year. The added value will cause an increase in the price of goods after going through the production process

ITEMS			RM Million
i) Agriculture, forestry and fishing	(+)		30,000
ii) Mining and quarrying	(+)		37,000
iii) Manufacturing	(+)		100,000
iv) Construction	(+)		13,000
v) Electricity, gas and water	(+)		10,000
vi) Transport, storage and communication	(+)		22,000
vii) Wholesale, retail, hotel and restaurant	(+)		47,000
viii) Finance, insurance and real estate	(+)		40,000
ix) Government Services	(+)		25,000
x) Other services	(+)		20,000
Gross Domestic Product at market price			344,000
Factor income received from abroad		25,000	
Factor income paid to abroad		18,000	
Net factor income payments from abroad (Factor income received – factor income paid)	(+)		7,000
Gross National Product at market price			351,000
Indirect taxes	(-)		500
Subsidies	(+)		700
Gross National Product at factor cost			351,200
Depreciation	(-)		5,000
National Income			346,200

Note : The sign (+) means add and (-) means subtract.

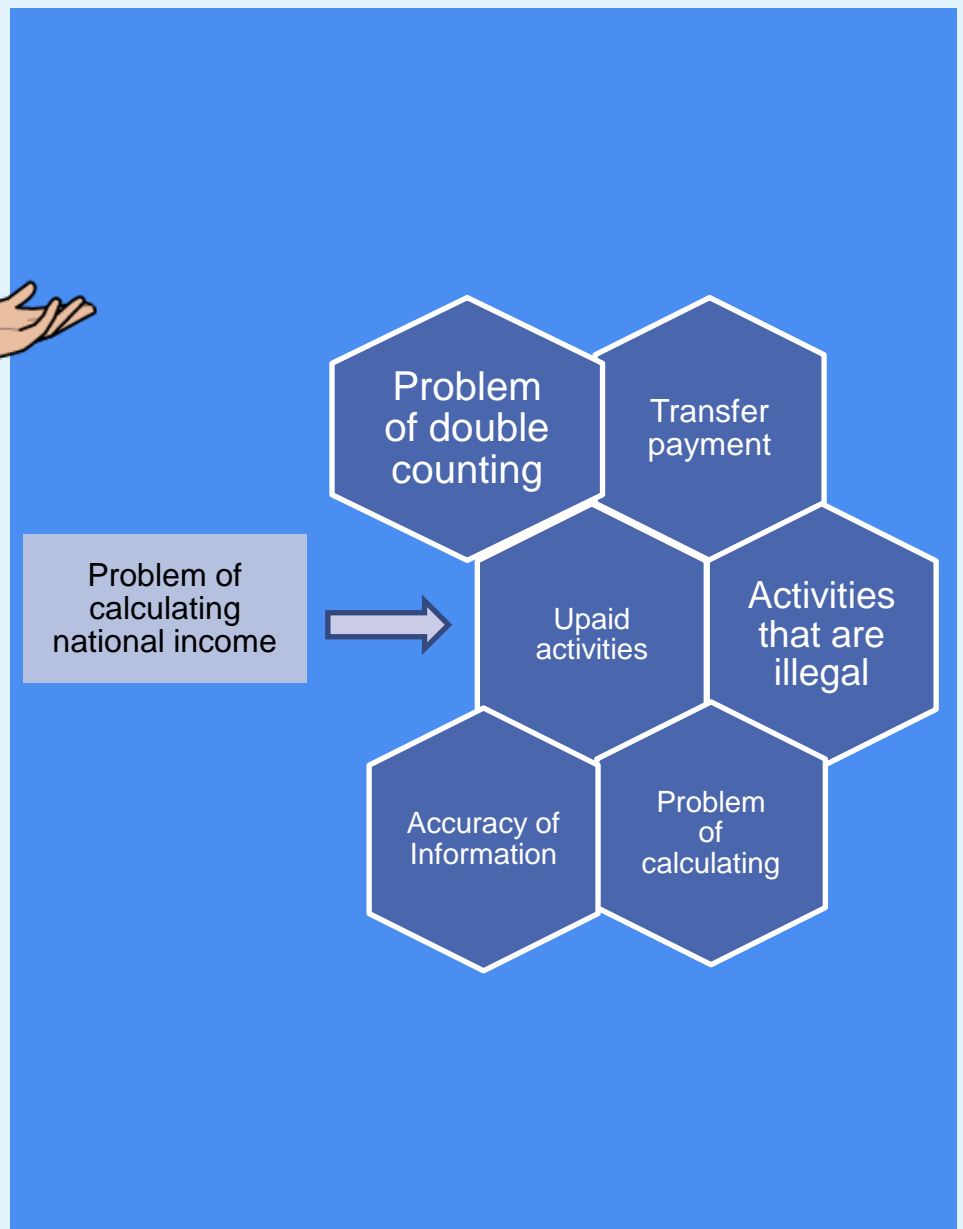
2.3.1 Uses Of National Income

The national income data reflects a country's overall economic activities. It is very useful for many parties, including the government, policy makers and Bank Negara Malaysia



2.4.1 Problem Of Calculating National Income

The calculation of the national income of a country is not an easy task. National income calculation are complicated and complex. These problems arise due to a lack of a clear group of the national income accounting procedures



EXPRES MEMORY



1. National Income refer to total net output of the nation.
2. Also, NI refer to total final value of goods and services produced by a nation during one year.
3. Methods of calculating the NI: Expenditure, Product and Income approach.
4. The uses of NI data: National economic planning, economic performance keys, standard of living, identify the important sectoral contribute, etc
5. Difficulties in calculating NI: Double counting, false information, unpaid activities, transfer payment, depreciation and illegal activities but productive, etc
6. Per capita income formula = $NI/population$,
 $310b/31m = RM1000$

QUESTION

Part A Multiple-choice questions

1. The primary sector include
 - A. Agriculture sector
 - B. Government services
 - C. Construction sector
 - D. Electricity, gas and water
2. Which sector is included in the tertiary sector?
 - A. Agriculture and forestry
 - B. Gases, water and electricity
 - C. Quarrying and mining
 - D. Construction
3. The secondary sector comprises
 - A. Agriculture, forestry and fishing
 - B. Highway and Building construction
 - C. Transport and storage
 - D. Government services
4. The first and third sector is also called..
 - A. Tertiary....primary sector
 - B. Primary.....tertiary sector
 - C. Privatepublic sector
 - D. Secondary tertiary sector
5. An economy's growth rate can be calculating using
 - A. Net income and population
 - B. National income and taxes
 - C. Gross national product
 - D. Income per capita
6. The income approach is...
 - A. total up all income received by the factors of production generated in the economy in one year
 - B. total up final outputs produced in all sector in the economy
 - C. total up all domestic spending in the economy on final goods
 - D. total up all local and international spending in the economy on goods and services.
7. The total value of goods and services produced by factors of production owned by a country's citizens is known as
 - A. Gross domestic product at market price
 - B. Gross national product at market price
 - C. Net national product at factor cost
 - D. Net national income
8. The difference between GDP and GNP is that
 - A. GDP includes net factor income earned in Malaysia
 - B. GNP not includes net factor income earned in Malaysia
 - C. GNP includes taxes and subsidies
 - D. GDP not includes depreciation

QUESTION

9. A gross domestic product refer to...

- A. the sum of market value of final products produced for export
- B. the final value of the total output produced in a country
- C. the market value of intermediate products
- D. the market value of both final and Intermediate products for export

10. A Malaysia gross national product refer

- A. the sum of market value of final products produced for export
- B. the market value of both final and intermediate products for export
- C. to the value of total output produced by Malaysian and foreigners in country
- D. is produced product and services by only Malaysian citizens

11. To convert GDP at market price to GNP at factor cost, it is necessary include

- A. net factor income from abroad, indirect taxes and subsidies
- B. Expenditure on import and export
- C. Add gross interest rate paying by companies
- D. Subtract depreciation and taxes

12. The equation for gross domestic product using the expenditure methods is

- A. $GDP = C + I + G + X + M$
- B. $GDP = C + I + G + M - X$
- C. $GDP = C + I + G + (X + M)$
- D. $GDP = C + I + G + (X - M)$

13. The main factor that differentiate GNP and net national product is

- A. Net investment
- B. Gross investment
- C. Depreciation
- D. Net factor income from abroad

14. Disposable personal income (Y_d) is the personal income

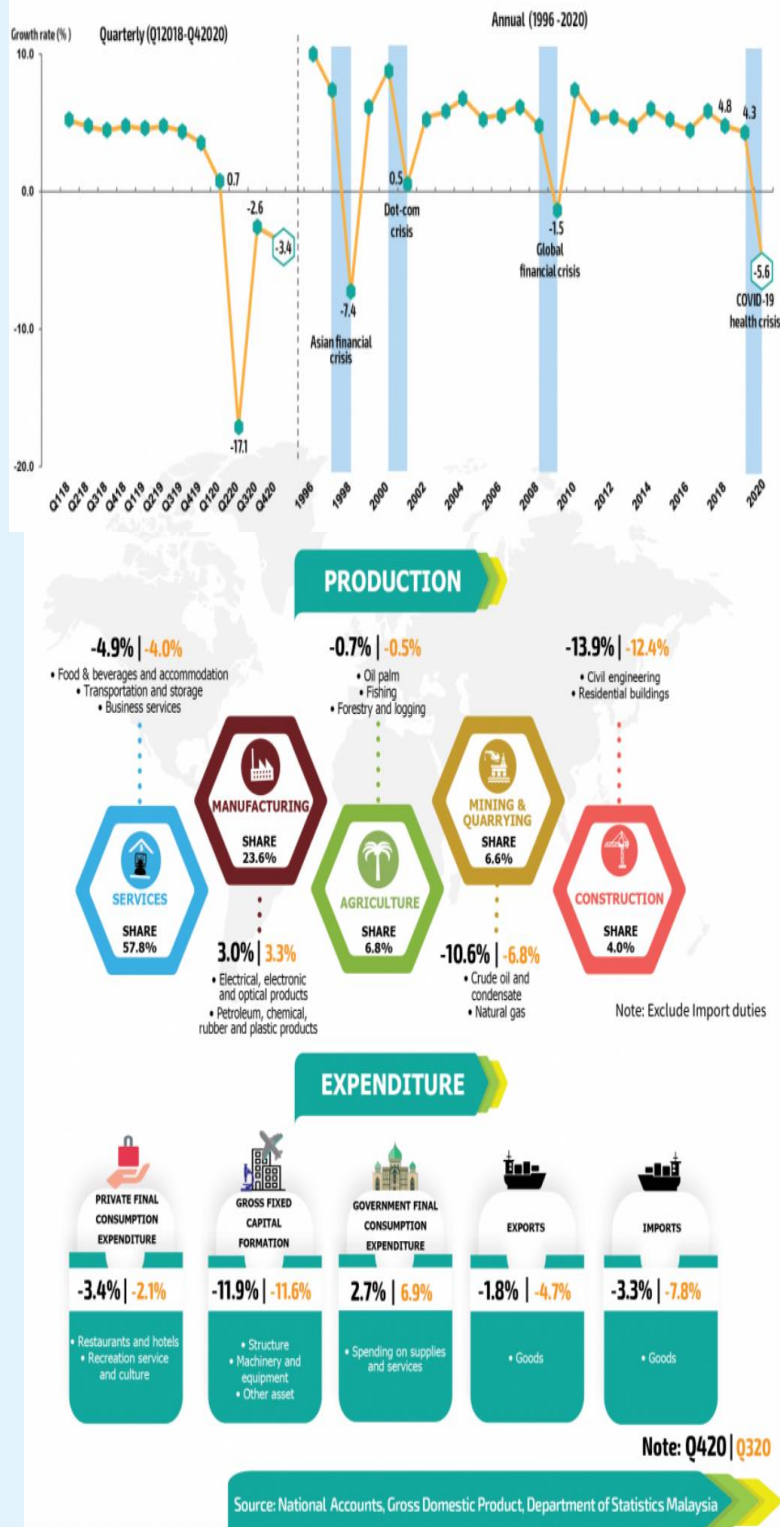
- A. after plus in of subsidies
- B. after the deduction of personal income tax
- C. after the deduction of insurance
- D. all above answer

15. The income approach using in calculating the national income accounting is known as the

- A. Semi final value method
- B. Factor cost method
- C. Final value method
- D. Market price method

CASE STUDY

Malaysia's economy contracted 3.4 per cent in Q4 2020



Malaysia's Gross Domestic Product (GDP) contracted 3.4 per cent for the fourth quarter of 2020 as compared to a decline of 2.6 per cent in the preceding quarter. For overall year 2020, Malaysia's GDP contracted 5.6 per cent as compared to 4.3 per cent in 2019. The last seen of Malaysia's economic contracted was in 2009 (-1.5%) and this is the lowest contraction after 1998 (-7.4%).

In 2020, various Movement Control Order (MCO) phases were implemented in the country since 18 March 2020 until now to curb the outbreak of COVID-19. Thus, the performance of economic activities following the domestic supply and demand factors and the influence of the external sector has led the Malaysian economy recorded negative growth for the three consecutive quarters for year 2020. Malaysia has experienced a negative growth for five consecutive quarters before recording a positive growth during the Asia Economic Crisis in 1998.

The performance of the fourth quarter of 2020 in terms of Malaysia's monthly GDP performance, the Malaysian economy recorded a contraction of 4.7 per cent in October, declining slower in November (-4.0%) and December (-1.7%). For the quarter on-quarter seasonally adjusted was recorded at negative growth 0.3 per cent (Q3 2020: 18.2%) in this quarter.

Discussion

Analysis and discuss the impact of outbreak of COVID-19 in production and expenditure in performance of economic activities

**RELAX &
THINK**



What is the impact of the use of electric cars with the Malaysian petroleum industry?



CHAPTER 3

Role Of Government



3.1

Relate the role of government in the context of Macroeconomics

3.2

Explain the government policy

3.1.1 Role of government

1

Adjust the allocation of resources

The government will adjust resource allocation for better distribution base the composition of domestic output.



2

Assist private sector to ensure economic stabilization

To ensure economic stability by controlling unemployment and inflation, which are caused by economic volatility.



3

Provide a legal and social framework for the effective operation of an economy

To keep the economy moving in great conditions and sound competition.



4

Create a business environment

Promote healthy competition between producers. This can increase efficiency in the use of resources and produce quality products.



5

Redistribute income and wealth among the population

The government distributes income between rich and poor to reduce income disparities. This distribution is through the implementation of taxes and transfer payments.

3.1.2 Type of budget



01

Balance budget

The balance budget is when government revenue equals government expenditure



02

Surplus budget

The surplus budget is when government revenue is more than government expenditure



03

Deficit budget

The deficit budget is when government revenue is less than government expenditure

3.1.3 Government revenue

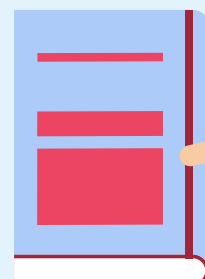


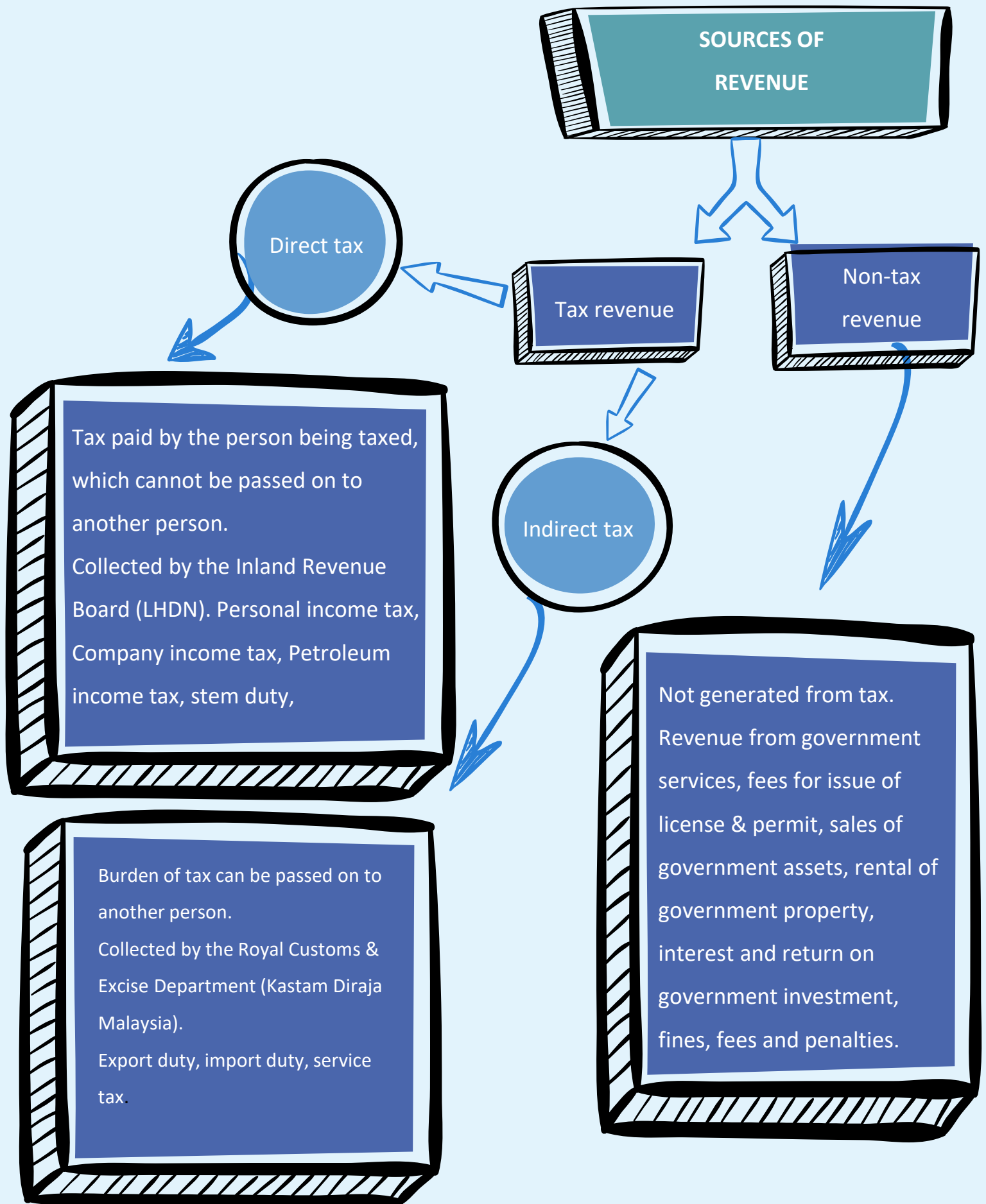
Tax revenue

Taxes are mandatory contributions from companies and individuals eligible to pay taxes. taxes are contributions to government revenue so that the government can provide the administrative services needed to govern the country.

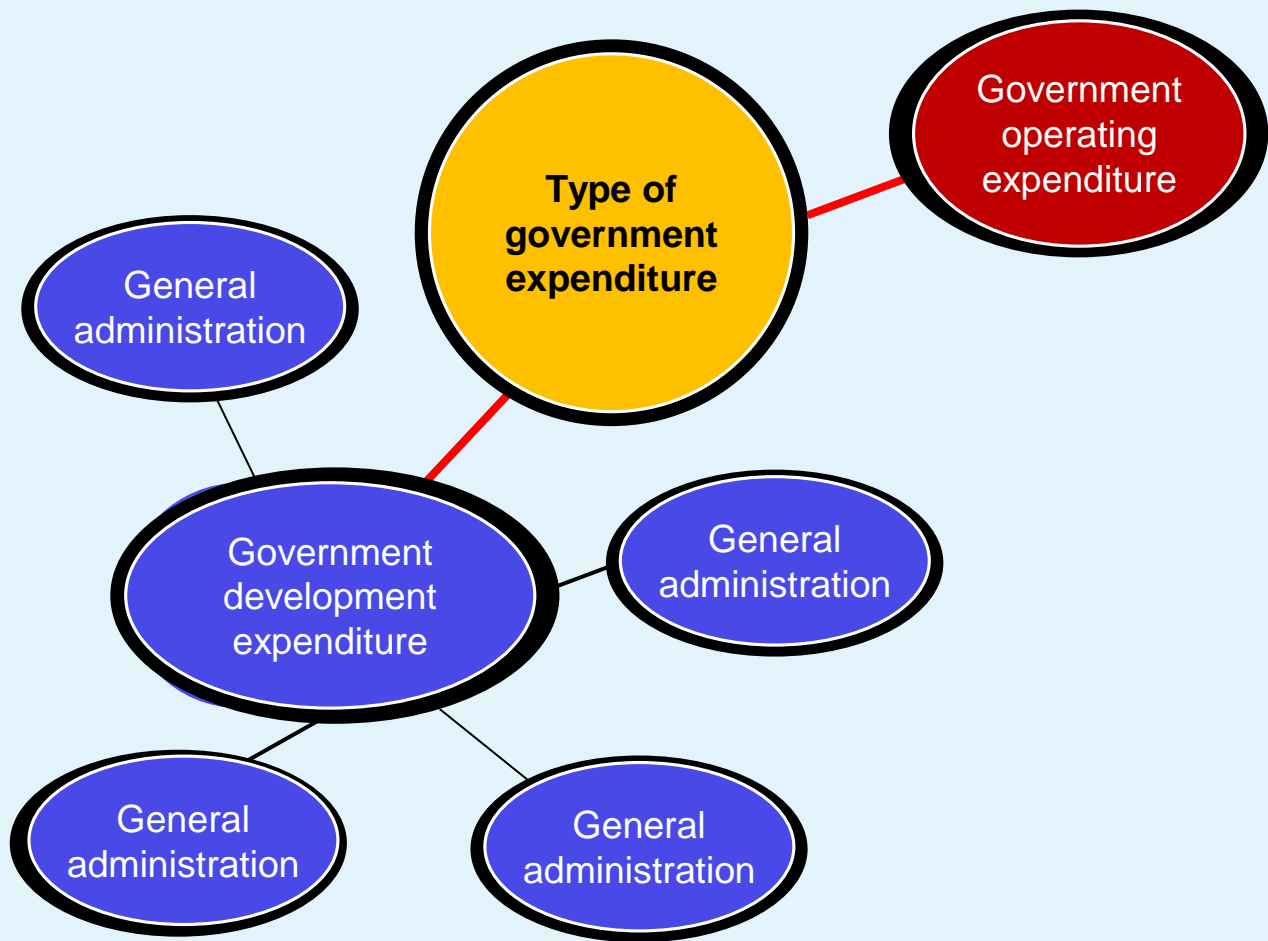
Non-tax revenue

Non -tax revenue is revenue obtained from non - tax sources.





3.1.4 Government expenditure



Government operating expenditure

Government operating expenses are expenses allocated for the operating and operating expenses of government departments. Pensions and gratuities, emoluments, debts, supplies and services, service charges, subsidies, asset acquisition, grants, and transfers payment are all examples of operating expenses.



3.1.4 Government expenditure

Government development expenditure

Government development expenditure is expenditure for investment purposes to improve facilities in basic infrastructure. It focuses on the development of projects that will enhance economic growth. Development expenses consist of economic services, social services, defense and security, and general administration.



Economics services

Consist of agriculture and rural development, trade and industry, transportation



Social services

Spending on social amenities such as education, housing, health and social, and community services



Defense and security

Expenditure for the purpose of maintaining national security for the Royal Malaysian Police, Malaysia Armed Forces



General administration

Include the Department of Public Services (JPA), the Inland Revenue Department (LHDN), Royal Customs and Excise, and the Department of Statistics.

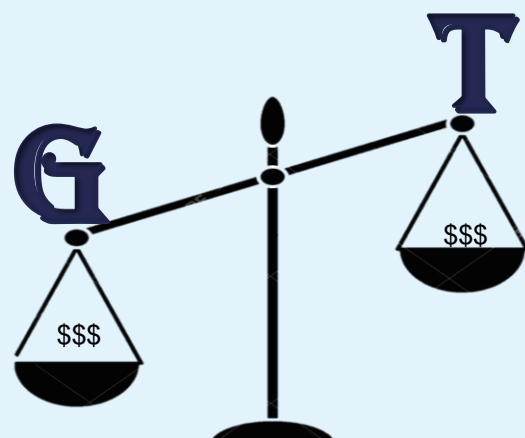


3.1.5 National Debt

When the government has a budget deficit, it will issue debt to finance the extra spending. Loans from governmental, corporate, and foreign financial institutions have contributed to the national debt.

Domestic debt is arguably a process that involves transferring wealth sources from the private sector to the public sector. So, the payment of interest rates on such loans only involves transferring wealth sources from the taxpayer to the holder of these securities.

"External debt" is a process that involves the transfer of wealth resources from one country to another. This means that the payment of interest rates on such loans also involves the transfer of resources and wealth from one country to another.



3.1.6 Sources Of Borrowing

Internal Sources

Borrowing from
citizen

1

Malaysian
Bond & Sukuk

2

Borrowing from
financial institutions

3

Loans from the
central bank

4

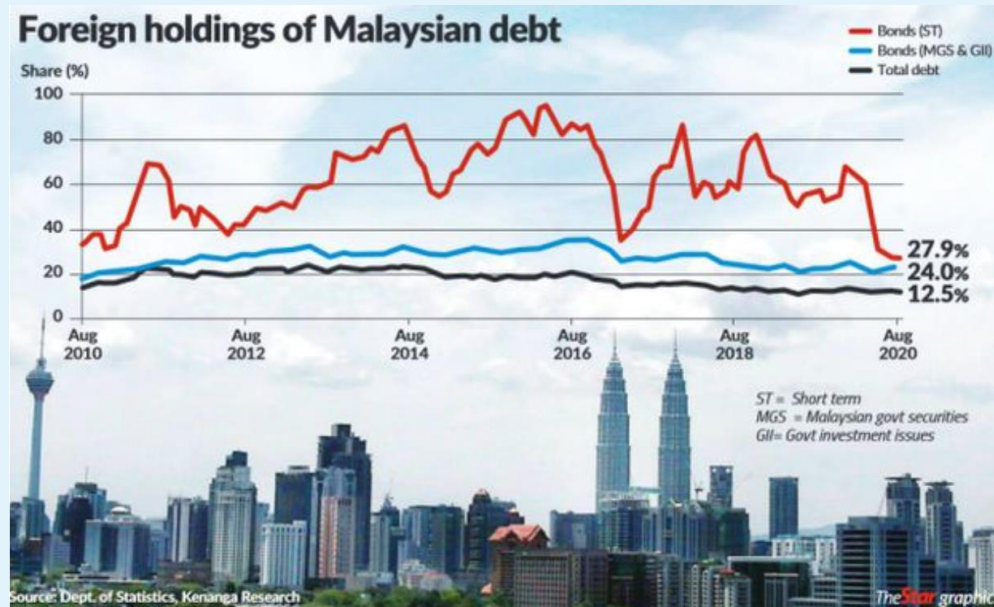
Loans from
commercial bank



3.1.6 Sources Of Borrowing

External Sources

- 1 International money market
- 2 Currency loans from foreign government
- 3 Loans from international financial institutions



Malaysia's first sukuk in five years overwhelmed, asserts status as world's biggest market



By Ayisy Yusof - April 23, 2021 @ 10:01am



Malaysia's first global sukuk issuance since 2016 has been an overwhelming success, with the US\$1.3 billion offering oversubscribed by 6.4 times. NSTP/OSMAN ADNAN

<https://www.nst.com.my/business/2021/04/684652/malaysias-first-sukuk-five-years-overwhelmed-asserts-status-worlds-biggest>

Understand more about Malaysia Bond & Sukuk Market

Watch this video



<https://www.youtube.com/watch?v=WWVzZQf17aE>



https://www.youtube.com/watch?v=6grcj_5Uerw

3.2.1 Government policy

Every economy aims to address the economic problems it faces, such as unemployment and inflation. Therefore, government policies need to be carried out to stabilise economic activity, achieve full employment levels without inflation problems, create strong economic growth, and overcome the imbalance in the balance of payments.

Monetary policy

Monetary policy is government measures, managed by the Central Bank, to influence the money supply in the economy or change interest rates with the aim of influencing aggregate spending. One of the components of aggregate expenditure is private investment. High interest rates will reduce investment and low interest rates will increase investment.

In Keynes's view, interest rates are determined by the demand and supply of money. The Central Bank can influence the money supply through monetary policy tools.

Fiscal Policy

Fiscal policy covers government measures to make changes in government taxation and spending with the intention of influencing aggregate spending in the economy. Changes in tax rates will affect aggregate spending and changes in government spending will affect the flow of money in the economy.

Direct control measure

Direct control is a policy implemented by the government to influence the current economic situation to overcome the problem of unemployment or inflation. Through this direct control policy, the government can either influence aggregate spending, create investment opportunities, or improve the skills of the workforce.



3.2.2 Monetary policy tools

Statutory Reserve Requirement

The statutory reserve requirement is a percentage of special deposits by commercial banks and financial institutions in the Central Bank. Changes in the statutory reserve requirements by the Central Bank will affect the level of savings and loans that can be supported by the bank system reserves.

The Central Bank requires commercial banks and financial companies to keep a minimum level of liquidity in the form of liquid assets against their liabilities.

Liquidity assets consist of cash, clearing balances with Bank Negara Malaysia, net balances with other banks, call money, treasury bills, trade bills, and short-term government securities.

Minimum Reserve Requirement

Open Market Operation

The Central Bank can make changes to the amount of money in circulation by selling and buying letters of guarantee or government-issued bonds on the open market.



3.2.2 Monetary policy tools

The bank rate, or discount rate, is the minimum rate at which Bank Negara Malaysia is willing to re-discount eligible short-term assets such as government securities. Bank rates are used to influence the cost of loans made by commercial banks. Changes in bank rates will result in similar changes in other interest rates as the interest rates a commercial bank gives to its customers.

Bank Rate or Discount Rate

Interest Rate

The Central Bank can make changes to the amount of money in circulation by selling and buying letters of guarantee or government-issued bonds on the open market.



3.2.3 Fiscal policy tools

Government Expenditure

Government expenditure is part of aggregate demand. Any change in government expenditure will change aggregate demand. When the economy is facing unemployment, through fiscal policy, the government can increase expenditure to increase economic activity. In an economy facing inflation problems, through fiscal policy, the government can reduce spending so that aggregate demand does not exceed aggregate supply.

Taxes are a leak in the national income cycle. The tax rate imposed by the government will affect an individual's disposable income and in turn change an individual's consumption. The tax rate will also affect the firm's profits and affect the firm's investments. Since consumption and investment are part of aggregate demand, any change in the government tax rate will change aggregate demand.

Taxation



3.2.4 Direct Control Policy tools

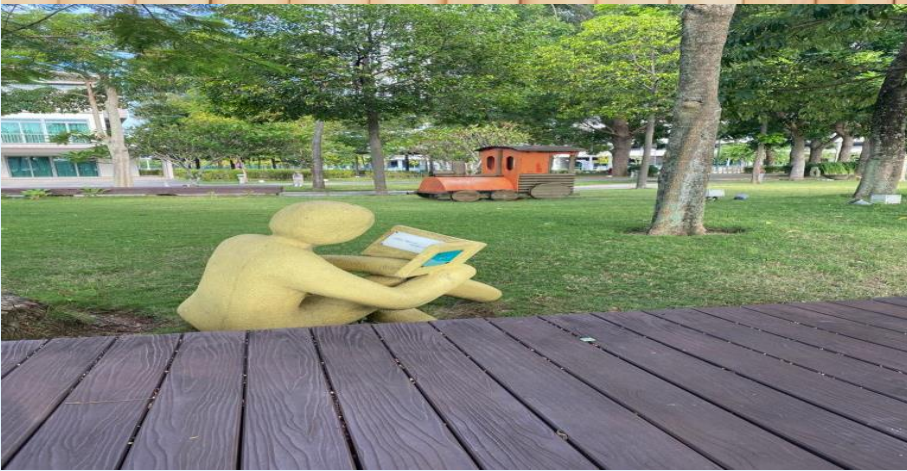
Besides monetary and fiscal policy, the government can also use direct control to overcome economic problems. To control unemployment, the government can take the following actions: 1) training and technical education, 2) development of new land, and 3) job creation in various sectors of the economy. To control inflation, some direct measures are taken. 1) Price control and rationing; 2) anti-holding campaign; and 3) mandatory saving

EXPRES MEMORY

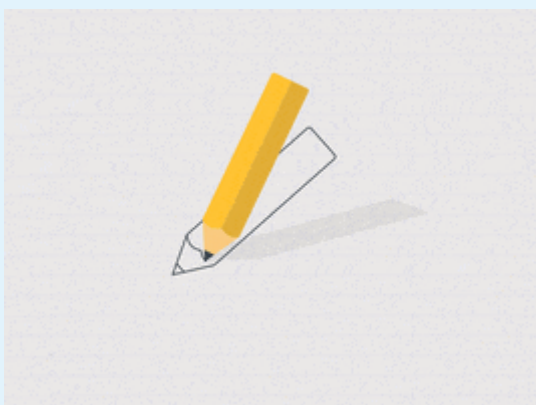


1. The economic functions of the government: adjust the allocation of resource, assist private sector ensure economic stabilize, create a business environment, redistribute income and wealth, and provide legal framework of business.
2. Three types of budget: Balance, Surplus and Deficit budget.
3. The source of revenue: Tax revenue and non-tax revenue.
4. The Government expenditure: Operating and development.
5. National debt occur when government revenue < government expenditure. Source of national debt: Internal and external source
6. Government policy: Monetary and Fiscal and Growth/Direct Policy.

EXPRES MEMORY



7. Objectives of Monetary Policy: Maintain domestic price stability, achieve BOP and full employment of resource, increasing economic growth and maintain low interest rates.
8. Objectives of Fiscal Policy: Securing efficient allocation of resource, achieve full employment of resource, increasing economic growth and controlling equitable distribution of income/wealth.



QUESTION

1. Economic functions of the government are all of the following **except**
 - A. To control the price level of goods
 - B. To create a stable business environment
 - C. To increase the level of higher education
 - D. To distribute income and wealth
2. Income receipts from government agencies as source of government revenue under category
 - A. Direct taxes
 - B. Indirect taxes
 - C. Non-tax revenue
 - D. No-revenue receipts
3. Which of the following is direct tax?
 - A. Export tax
 - B. Import tax
 - C. Company income tax
 - D. Services tax
4. Petroleum income tax are very important of Malaysian government revenue. So, revenue from Petroleum income tax is under
 - A. Direct taxes
 - B. Indirect taxes
 - C. Non-tax revenue
 - D. No-revenue receipts
5. Taxes as source of government revenue, taxes are included in the policy;
 - A. direct policy
 - B. fiscal policy
 - C. monetary policy
 - D. growth policy
6. Which of the following component is related to indirect tax?
 - A. Import duty
 - B. Individuals income tax
 - C. Company income tax
 - D. Petroleum income tax
7. The largest sector contributor to Malaysian government income is....
 - A. Direct taxes
 - B. Sales and services taxes.
 - C. Goods and services taxes
 - D. Income taxes
8. The objectives of government taxation are as follow **except**
 - A. to protect local industries
 - B. to promote the growth of industries
 - C. to increase government revenue
 - D. to increase equality of income between the rich and poor group

QUESTION

9. Government development expenditure consists of
 - A. economic services
 - B. subsidies
 - C. pension and gratuities
 - D. Emolument
10. All statements the following is a economic function of the government except?
 - A. Preparing the national budget
 - B. Collecting taxes and non-taxes
 - C. Implementing fiscal policies
 - D. Exporting goods and services
11. A deficit budget occurs when
 - A. The public debt decreases
 - B. The government's expenditure equals government's revenue
 - C. Tax collection is more than government expenditure
 - D. The government's expenditure exceeds tax revenue
12. A balanced budget occurs when
 - A. Tax collection is more than government expenditure
 - B. The local debt increases
 - C. The government's expenditure equal government's revenue
 - D. The government's expenditure exceeds government's revenue
13. A surplus budget occurs when
 - A. The government's expenditure exceeds tax revenue
 - B. The national debt constant
 - C. The government's expenditure equals government's revenue
 - D. The collection is more than government expenditure
14. Government operating expenditure consists of
 - A. economic services
 - B. subsidies
 - C. social services
 - D. all of the above
15. Government policy consists of the following except
 - A. balance policy
 - B. direct control policy
 - C. monetary policy
 - D. fiscal policy



CASE STUDY

Malaysia Lockdown to Impact Growth, Deficit Targets, Finance Minister Says

Malaysia will revise its economic growth and fiscal deficit forecasts as it begins a two-week lockdown to fight a surge in Covid cases, said Finance Minister Tengku Zafrul Abdul Aziz.

“We are calculating the impact and what I can say is that there will be a revision that is required given the closure of some major economic sectors,” Zaful said in a briefing Tuesday. “There will be an impact to deficit due to the revision in GDP.”

The government may have to borrow more to fund the \$9.7 billion plan announced by Prime Minister Muhyiddin Yassin late Monday, Zafrul said. The other options are to save on expenditure and use dividends or income from the government ecosystem, which includes statutory bodies and state-linked companies, he said.

Malaysia’s economy contracted for the fourth straight quarter in the first three months of 2021, albeit at a slower pace. The government and the central bank expect GDP to expand 6%-7.5% this year after a 5.6% contraction in 2020. The fiscal deficit is projected by the government at 6%.

Benchmark 10-year sovereign bond yields dropped one basis point to 3.24%, while the ringgit and the benchmark equity index traded little changed.

“The bond market is somewhat concerned about the risk of a widening in the fiscal deficit, which could result in higher bond supply,” said Winson Phoon, head of fixed-income research at Maybank Kim Eng Securities Pte. in Singapore. “But subsequent to the stimulus package announcement yesterday, investors took comfort from the fact that the measures are largely non-fiscal.”



CASE STUDY

The government will need a few days to ascertain the daily cost of the restrictions, Zafrul said. A similar lockdown in 2020 cost the country an estimated 63 billion ringgit.

“We will continue to support where we can, responsibly, as the government,” he said, responding to criticism that Monday’s package isn’t sufficient to help the people. “We need to balance

Discussion

- a) Define the deficit budget.
- b) Discuss the impact of lockdown to the Malaysian economy.

**RELAX &
THINK**

Watch this video



For more information on Sukuk Prihatin read from this link

<https://www.pmo.gov.my/2020/08/rm500-million-sukuk-prihatin-launched/>

What is the purpose of the government issuing bonds or sukuk?



What is the impact of a country's national debt on its economy?



ANSWER KEY

CHAPTER 1

QUESTION

- 1 C 2 D 3 A 4 A 5 C 6 C 7 A 8 B
9 D 10 C

CASE STUDY

- a. This articles related to Monetary Policy because statement from Bank Negara Malaysia. The BNM Governor has presented his views on all sectors of the economy showing an increase especially in domestic demand and a strengthening in the country's exports.
- b. The impact of lockdown
- i. Overall, the Malaysian economy recorded a negative growth of -0.5% to -3.9% for the first quarter of 2021
 - ii. The inflation rate is still controlled at 0.5%, which is a moderate type of inflation, suitable for product innovation competition.
 - iii. The Malaysian economy is still dominated by the household, export and industrial spending sectors.

CHAPTER 2

QUESTION

- 1 D 2 B 3 B 4 B 5 D 6 A 7 B 8 A
9 B 10 D 11 A 12 D 13 C 14 B 15 C

CASE STUDY

Malaysia's GDP for the fourth quarter of 2020 contracted 3.4 per cent influenced by the decline in all economic sectors except for Manufacturing sector which registered a positive growth in this quarter. Services sector was a major contributor to economic activity declined 4.9 per cent (Q3 2020: -4.0%) in this quarter.

The decrease in Services sector was due to the contraction of subsectors for the tourism-related industries following travel restrictions which contributed to the lower foreign tourists arrival to Malaysia as well as movement restriction of domestic tourists in the country. In overall, for year 2020, a number of foreign tourists arrival has drastically dropped as compared to 2019. Among the worst affected sub-sectors were the Food & beverages and accommodation and Transportation and storage segments which dwindled to only 5.9 per cent compared to 7.3 per cent during normal years. The Wholesale and retail trade sub-sector showed a smaller decline of 1.5 per cent in this quarter supported by Wholesale and Motor vehicles segments. Meanwhile, Information & communication sub-sector further expanded which indirectly help to cushion the fall of the Services sector in the fourth quarter of 2020.

The Manufacturing sector for the fourth quarter 2020 maintained a positive growth at 3.0 per cent driven by Petroleum, chemical, rubber & plastics products followed by the Electrical, electronic & optical products. The continuous positive growth was contributed by the export-oriented industries which grew 3.4 per cent (Q3 2020: 5.0%) in line with the overall exports performance which recorded a positive growth of 5.1 per cent in the fourth quarter of 2020. Similarly, the performance of the domestic-oriented industries increased by 2.2 percent (Q3 2020: -0.2%) for the quarter.

In the fourth quarter of 2020, Agriculture sector slightly dropped 0.7 per cent due to the contraction in Oil palm, Fishing, Forestry & logging and Rubber sub-sectors. However, the Livestock sub-sectors increased in this quarter to a better positive trend as compared to previous quarter. Mining & quarrying sector continued to decline 10.6 per cent in this quarter attributed by the decline in production of Crude & condensate and Natural gas due to the lower market demand.

CHAPTER 2

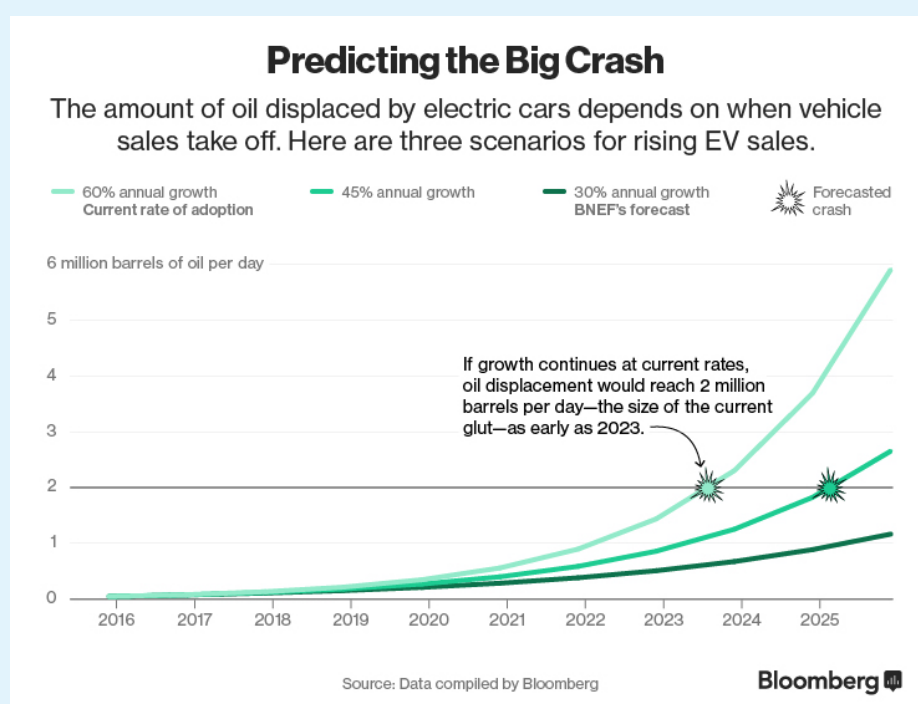
Construction sector contracted 13.9 per cent from negative 12.4 per cent in the preceding quarter. This is in line with average of value work done per project decreased in the fourth quarter of 2020. The contraction in the Construction sector was due by negative growth in Civil engineering, Non-residential buildings and Residential buildings. Nevertheless, Specialised construction activities posted a positive growth in this quarter. (Source : Malaysia Economic Performance Fourth Quarter 2020 : Department Of Statistics Malaysia).

RELAX & THINK

The impact of the use of electric cars with the Malaysian petroleum industry

Bloomberg's new animated series *Sooner Than You Think*, calculated the effect of continued 60 percent growth. We found that electric vehicles could displace oil demand of 2 million barrels a day as early as 2023. That would create a glut of oil equivalent to what triggered the 2014 oil crisis.

Compound annual growth rates as high as 60 percent can't hold up for long, so it's a very aggressive forecast. BNEF takes a more methodical approach in its analysis today, breaking down electric vehicles to their component costs to forecast when prices will drop enough to lure the average car buyer. Using BNEF's model, we'll cross the oil-crash benchmark of 2 million barrels a few years later—in 2028.



Source :
Here's how
electric cars will
cause the next oil
crisis

Article : IENE
Institute of energy
for south east
europe

CHAPTER 3**QUESTION**

- 1 C 2 C 3 C 4 B 5 B 6 B 7 A 8 B
9 A 10 D 11 D 12 C 13 D 14 B 15 C

CASE STUDY

- a) The deficit budget is when government revenue is less than government expenditure
- b) Malaysia will revise its economic growth and fiscal deficit forecasts. There will be an impact to deficit due to the revision in GDP. The government may have to borrow more to fund the \$9.7 billion plan.

RELAX & THINK

Bonds and sukuk are issued by the government to fund government expenditures for infrastructure development and community well-being.

The burden of interest payments will be increased as the government's debt grows. As a result, the government will have to increase tax rates while also reducing spending. Seeing as government spending is the primary driver of the economy, any reduction will expedite the process of economic contraction.

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Anisah Shukry June 1, 2021, 3:20 PM GMT+8 *Updated on June 1, 2021, 4:26 PM GMT+8*

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