CHARTERED INSTITUTE OF TAXATION (225750 T)
(Institut Percukaian Malaysia)

PROFESSIONAL EXAMINATIONS

INTERMEDIATE LEVEL

ECONOMICS

DECEMBER 2017

Student Reg. No.   Date

Desk No.   Examination Centre

Time allowed: 3 hours

INSTRUCTIONS TO CANDIDATES

1. You may answer this paper **EITHER** in English **OR** Bahasa Malaysia. Only **ONE** language is to be used.

2. This paper consists of **TWO** sections. **SECTION A** contains **TWENTY** multiple choice questions, and **SECTION B** contains **SIX** questions.

3. Answer **ALL** questions in **SECTION A** and choose any **FOUR** questions out of SIX from **SECTION B**.

4. All workings for SECTION B are to be shown.

5. Answers should be written in either black or blue ink.

6. No question paper or answer booklet is to be removed from the examination hall.

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SECTION A: Multiple Choice Questions (Total: 20 marks)

Answer all questions in the multiple choice answer sheet provided. Each question is worth one (1) mark. There is no deduction for wrong answers.

1. Economics primarily deals with the study of_____.

   A. scarcity
   B. money
   C. poverty
   D. banking

2. Suppose a harvester produces both apples and oranges in her garden. If the opportunity cost of one bushel of oranges is 2/5 bushel of apples, then the opportunity cost of 1 bushel of apples is_____.

   A. 2/5 bushel of oranges
   B. 5/2 bushels of oranges
   C. 2 bushels of oranges
   D. 5 bushels of oranges

3. Which of the following would cause the equilibrium quantity to increase?

   A. Demand increases and supply decreases.
   B. Demand and supply both decrease.
   C. Demand decreases and supply increases.
   D. Demand and supply both increase.

4. Elasticity can be conceptualized as

   A. a measure of the sensitivity of demand to changes in price.
   B. the slope of the demand curve.
   C. the slope of the supply curve.
   D. the slope of the budget line.

5. The amount of the deadweight loss that results from a tax is determined by the

   A. elasticities of both supply and demand.
   B. elasticity of demand only.
   C. elasticity of supply only.
   D. all of the above are correct.

6. For most goods and services in an economy, the most important factor that influences the decisions of buyers and sellers is_____.

   A. advertising
   B. quality
   C. reputation
   D. price

7. Suppose that Aisha is the owner of an accounting firm. Her business has two factor inputs: labour and computer. In the short run, Aisha most likely considers

   A.   both labour and computer to be fixed.
   B.   both labour and computer to be variable.
   C.   computer to be variable and labour to be fixed.
   D.   labour to be variable and computer to be fixed.

8. When a perfectly competitive firm produces a level of output at which marginal cost is higher than marginal revenue, then

   A.   average revenue exceeds marginal cost.
   B.   the firm is earning a positive profit.
   C.   decreasing output would increase the firm's profit.
   D.   All of the above are correct.

9. A monopoly is defined as a single firm that

   A.   sets the price it charges for its output and earn indefinite profits.
   B.   is a price taker and thereby, earns small but positive profits.
   C.   sets the price it charges for its output but faces a downward-sloping demand curve so it cannot earn unlimited profits.
   D.   sets the price it charges for its output but has a perfectly elastic demand curve so it can earn unlimited profits.

10. Which of the following statement is correct about a monopolistically competitive firm?

   A.   The firm can earn an economic profit in the short run but not the long run.
   B.   The firm can earn an economic profit in the short run and the long run.
   C.   The firm can earn an economic profit in the long run but not the short run.
   D.   All of the above are correct.

11. In the following equation, $Y = C + I + G + NX$,

   A.   Y is the economy's total expenditure.
   B.   C is household expenditures on services and durable goods.
   C.   All of the variables always have positive values.
   D.   All of the above are correct.

12. The primary purpose of measuring the overall level of prices in the economy is to

   A.   measure gross domestic product.
   B.   allow consumers to know about past prices.
   C.   compare dollar figures from different points in time.
   D.   compare dollar figures from the same point in time.

13. Which of the following do residents of highly developed countries usually have in greater quantities or better quality than residents of developing countries?

   A.   Housing
   B.   Healthcare
   C.   Life expectancy
   D.   All of the above

14. Assuming Malaysia to be a closed economy, and its private saving is RM12 billion and investment is RM10 billion, then

    A. National saving is equal to RM12 billion.
    B. Public saving is equal to RM2 billion.
    C. the government budget surplus is equal to RM2 billion.
    D. the government budget deficit is equal to RM2 billion.

15. In a closed economy, suppose public saving falls by $2 billion while private saving falls by $1 billion, investment in the country

    A. falls by $1 billion.
    B. increases by $1 billion.
    C. falls by $2 billion.
    D. falls by $3 billion.

16. Minimum-wage laws

    A. cause unemployment.
    B. do not apply in states with right-to-work laws.
    C. affect highly-skilled workers more than the students who drop out of high school.
    D. cause labour shortage and consequently, wage goes above equilibrium.

17. Money

    A. does not help to transfer purchasing power from the present to the future.
    B. makes trade easier.
    C. allows for barter.
    D. hinders production.

18. When the price level increases from 200 to 250, the inflation rate is

    A. 50 per cent.
    B. 25 per cent.
    C. 20 per cent.
    D. None of the above is correct.

19. Malaysia is an open economy and the country has many trade partners. Suppose Malaysia imports more goods and services from Indonesia than Indonesia does from Malaysia. We can conclude that Malaysia has

    A. a trade surplus.
    B. a trade deficit.
    C. has negative net exports.
    D. conclusion cannot be made.

20. When a country enters a recession, the country's unemployment

    A. increases.
    B. decreases.
    C. is equal to the natural rate of unemployment.
    D. is frictional unemployment minus structural unemployment.

SECTION B: Structured Questions (Total: 80 marks)

Answer any **FOUR** questions out of **SIX** in this section.

Question 1

(a) **Using a supply and demand diagram, demonstrate how a negative externality leads to market inefficiency. Explain your diagram in detail.**

(5 marks)

(b) **How can the government help to eliminate this inefficiency? Explain using the diagram you drew in (a) above.**

(5 marks)

(c) **The Coase theorem suggests that efficient solutions to externalities can be determined through bargaining. Provide THREE circumstances in which private bargaining will fail to produce a solution?**

(6 marks)

For question (d) and (e), please refer to the diagram below.

Rival in Consumption?

		Yes	No
Excludable?	**Yes**	*A*	*B*
	No	*C*	*D*

(d) **Among the boxes labeled *A, B, C* and *D,* which one represents public goods?**

(2 marks)

(e) **Among the boxes labeled *A, B, C* and *D,* which one represents common resources?**

(2 marks)

[Total: 20 marks]

Question 2

(a)   **What are the FIVE characteristics of a perfectly competitive market?**

(5 marks)

(b)   **Use a diagram to show all the relevant curves for the market and an individual firm in a perfectly competitive market where firms are earning economic profits in the short run. Give a brief explanation of your diagram.**

(5 marks)

(c)   **Can this economic profit in the short-run scenario be maintained in the long run? Explain your answer.**

(10 marks)

[Total: 20 marks]

Question 3

(a)   **Explain how a profit-maximizing monopolist chooses its level of output and the price of its good.**

(5 marks)

(b)   **Graphically depict the deadweight loss caused by a monopoly. Explain how this is similar to the deadweight loss from taxation.**

(10 marks)

(c)   **What is the deadweight loss due to profit-maximizing monopoly pricing under the following conditions?** The price charged for goods produced is $4. The intersection of the marginal revenue and marginal cost curves occurs where output is 50 units and marginal revenue is $2. The socially efficient level of production is 100 units. The demand curve is linear and downward sloping, and the marginal cost curve is constant. **Show your calculation step by step.**

(5 marks)

[Total: 20 marks]

Question 4

Explain how each of the following changes the money supply.

(a) **The Fed buys bonds**

(5 marks)

(b) **The Fed raises the discount rate**

(5 marks)

(c) **The Fed raises the reserve requirement**

(5 marks)

(d) **If the reserve ratio is 20 per cent, how much money can be created from $100 of reserves? Show your calculation.**

(5 marks)

[Total: 20 marks]

Question 5

The data on the labour force in a country are as follows:

	Year	
	2015	**2016**
Employed	**18 million**	**19.5 million**
Unemployed	**1.8 million**	**1.5 million**

Based on the information above, calculate the following:

(a) **Total labour force for 2015 and 2016 respectively.**

(4 marks)

(b) **The unemployment rates for 2015 and 2016.**

(4 marks)

(c) **Discuss the negative effects of unemployment to an economy.**

(12 marks)

[Total: 20 marks]

Question 6

(a)   **What is the difference between monetary policy and fiscal policy?**

(4 marks)

(b)   **Suppose that changes in aggregate demand tend to be infrequent and it takes a long time for the economy to return to long-run output. How would this affect the arguments of those who oppose output stabilization policy?**

(10 marks)

(c)   **Suppose that there are no crowding-out effects and the Marginal Propensity to Consume (*MPC*) is 0.9. By how much must the government increase expenditures in order to shift the aggregate demand curve rightward by $10 billion?**

(6 marks)

[Total: 20 marks]

(END OF QUESTION PAPER)