CHARTERED TAX INSTITUTE OF MALAYSIA (225750 T)
(Institut Percukaian Malaysia)

PROFESSIONAL EXAMINATION

INTERMEDIATE LEVEL

ECONOMICS

DECEMBER 2020

Student Registration No.		**Date**	
Desk No.		**Examination Centre**	

Time allowed: 3 hours

INSTRUCTIONS TO CANDIDATES

1. You may answer this paper **EITHER** in English **OR** in 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. Each answer should begin on a separate answer template.

5. All workings **MUST** be shown as marks will be awarded.

DO NOT TURN OVER THIS PAGE UNTIL INSTRUCTED BY THE INVIGILATOR

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.

1.   The notion of scarcity originates from the fact that

    A.   production methods are usually very poor.
    B.   wealthy people consume unequal quantities of goods and services.
    C.   government authorities restrict production of too many goods and services.
    D.   resources are limited.

2.   Making assumptions in economics is usually a

    A.   bad idea, because the assumptions fail to include important ideas and variables from economic models.
    B.   bad idea, because the assumptions cause data-collection problems.
    C.   good idea, because the assumptions help to simplify the complex world and make it easier to understand.
    D.   good idea, because economic analysis without assumptions leads to complicated results that the general public finds hard to explain.

3.   Which of the following concepts most entails comparative advantage?

    A.   Output per day.
    B.   Opportunity cost.
    C.   Effectiveness.
    D.   Sellers' and buyers' bargaining powers in international trade.

4.   Supply and demand are the backbone in a market economy. This is because they

    A.   play a crucial role in the allocation of the economy's limited resources.
    B.   determine how much of each good and service gets produced.
    C.   can capture the impact of various events and policies on the economy.
    D.   All of the above are correct.

5.   Which of the following characterizes a perfectly competitive market?

    A.   Different sellers sell identical products.
    B.   There are many sellers and buyers.
    C.   Sellers and buyers are price-takers.
    D.   All of the above are correct.

6.   For a price floor *not* to be binding,

    A.   the price floor should be set higher than the equilibrium price of the goods.
    B.   the quantity demanded of the goods without the price floor is higher than the quantity of the goods demanded with the price floor.
    C.   the quantity supplied of the goods without the price floor is higher than the quantity of the goods supplied with the price floor.
    D.   All of the above are correct.

7.
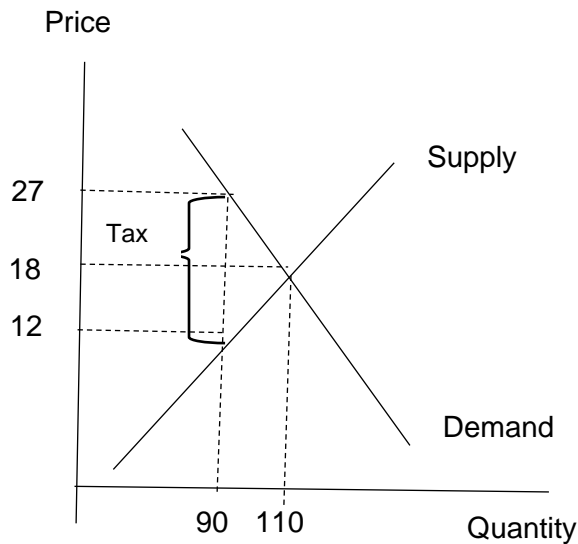
With reference to the above figure, the price that buyers will pay after the tax is instituted is

A.   RM9.
B.   RM18.
C.   RM12.
D.   RM27.

8.   Choose the goods/service from the following set that is rival and non-excludable.

A.   National defence.
B.   Cable TV service.
C.   Fish in the ocean.
D.   A fishing boat in the coastal waters of Peninsular Malaysia.

9.   Toyo Tyre Company has total fixed cost amounting to RM300,000 per year. The company's average variable cost is RM80 for 10,000 tyres. The company's average total cost at this level of production amounts to

A.   RM80.
B.   RM90.
C.   RM100.
D.   RM110.

10.
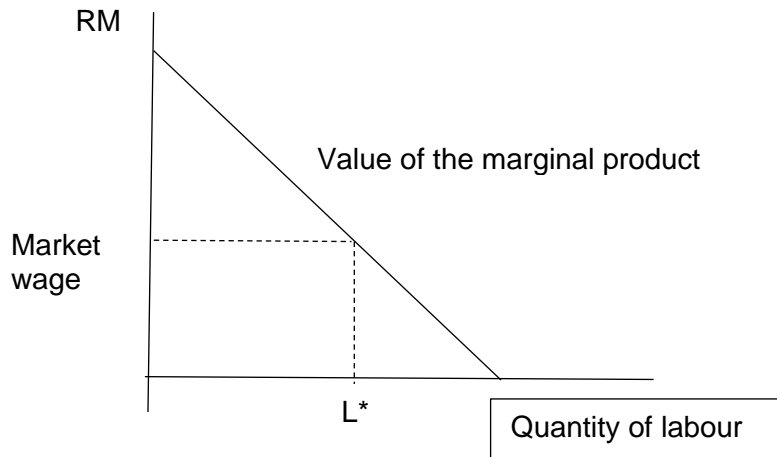
The diagram above shows the relationship between a firm's quantity of labour and market wages. If the firm decides to maximize profit, the quantity of labour it will hire is

A.   less than L*.
B.   greater than L*.
C.   equal to L*.
D.   indeterminate since the labour supply curve is not shown.

11.   Suppose you are measuring the gross domestic product (GDP) of Malaysia. If consumers buy burgers and fries at a fast food restaurant in Malaysia,

A.   this will affect neither GDP nor consumption because all the intermediate products used to make the burgers and fries at the restaurant have been accounted for.
B.   this will increase GDP but consumption spending will remain unchanged.
C.   GDP will remain unchanged but consumption spending will increase.
D.   both GDP and consumption spending will increase.

12.   The table below shows a nation producing only two goods: durians and oranges. There are five (5) durians and ten (10) oranges in the fixed basket of goods.

Year	Price of durian (RM)	Price of orange (RM)
2017	24	8
2018	30	12
2019	32	15

Using 2017 as the base year, the consumer price index (CPI) is

A.   100 in 2017, 135 in 2018, and 155 in 2019.
B.   100 in 2017, 270 in 2018, and 310 in 2019.
C.   200 in 2017, 270 in 2018, and 310 in 2019.
D.   200 in 2017, 540 in 2018, and 620 in 2019.

13.   Assume that in a country, real gross domestic product (GDP) was RM750 billion and the population was 3 million in 2018. In 2019, real GDP increased to RM907.5 billion and the population to 3.3 million. The approximate growth rate of real GDP per capita is

A.   10%.
B.   14%.
C.   17%.
D.   21%.

14. Gross domestic product (GDP) is composed of the following components:

    A.   consumption, investment, depreciation, and net exports.
    B.   consumption, saving, investment, and government purchases.
    C.   consumption, government purchases, investment, and exports.
    D.   consumption, government purchases, investment and exports, less imports.

15. When the central bank needs to increase the money supply, it does this by carrying out open market

    A.   sales and increasing the discount rate.
    B.   sales and reducing the discount rate.
    C.   purchases and increasing the discount rate.
    D.   purchases and reducing the discount rate.

16. Assume that a nation has an adult population of 25 million with a 60 per cent labour force participation rate and a six (6) per cent unemployment rate. The number of people employed and the number of people in the labour force are, respectively,

    A.   11.75 million and 12.5 million.
    B.   13.5 million and 15 million.
    C.   14 million and 12.5 million.
    D.   14.1 million and 15 million.

17. Suppose Indonesia's consumer price index (CPI) is falling over time. Economists would say that Indonesia has

    A.   a disinflation.
    B.   a deflation.
    C.   a contraction.
    D.   a stagflation.

18. Suppose the Ringgit Malaysia gets stronger compared to the Indonesian rupiah. We conclude that, *ceteris paribus*,

    A.   Indonesia's trade deficit with Malaysia will increase.
    B.   Indonesia's trade deficit with Malaysia will decrease.
    C.   Indonesia's trade deficit with Malaysia will remain unchanged.
    D.   None of the above is correct.

19.

Quantity of Aggregate Output
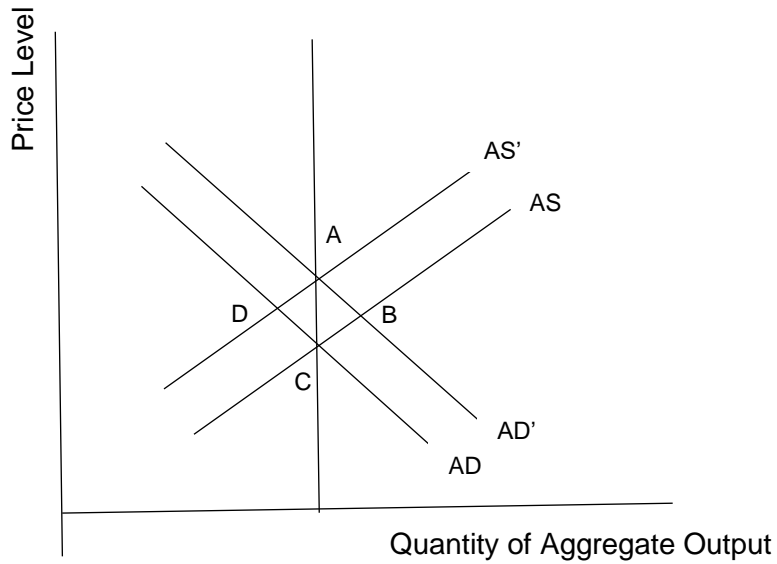
With reference to the figure above, suppose a nation's economy is at point C. An increase in the money supply moves the nation's economy

A.   to point A in the long run.
B.   to point B in the long run.
C.   back to point C in the long run.
D.   to point D in the long run.

20.   People want to hold less money in their wallets if the consumer price index (CPI)

A.   or the interest rate increases.
B.   or the interest rate decreases.
C.   decreases or the interest rate increases.
D.   increases or the interest rate decreases.

SECTION B: Structured Questions (Total: 80 marks)

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

Question 1

You own a small movie theatre and currently charge RM5 per ticket for everyone who comes to your movies. You are thinking of a way to increase the total revenue. Given the demand curves for adult and child as illustrated below, answer the following questions.
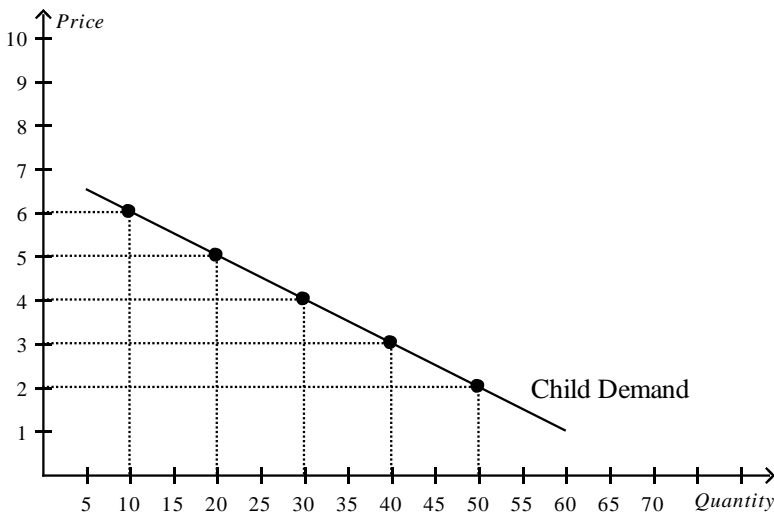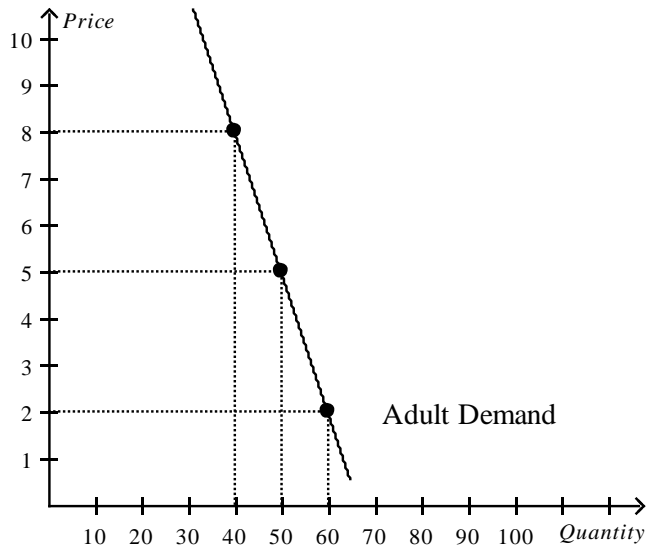
(a) What is your current total revenue for both groups?

(4 marks)

(b) Using the midpoint method, calculate the elasticity of demand between the prices of RM5 and RM2 in the adult market. Is it elastic or inelastic?

(4 marks)

(c) Using the midpoint method, calculate the elasticity of demand between RM5 and RM2 in the child market. Is it elastic or inelastic?

(4 marks)

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(d)   **Which market has the more elastic demand?**   (2 marks)

(e)   **Referring to the graphs, should you increase the price of adult tickets to RM8 each and lower the price of a child's ticket to RM3? How much could you increase total revenue if you take this option?**

                                                                                               (6 marks)

[Total: 20 marks]

Question 2

The company Warner Warm Sdn Bhd has the following costs of production:

Units	Total Fixed Cost	Total Variable Cost	TC	AFC	AVC	ATC	MC	TR	MR	Profit
0	RM100	RM0								
1	100	50								
2	100	70								
3	100	90								
4	100	140								
5	100	200								
6	100	360								

(a)   **Calculate the company's total cost (TC), average fixed cost (AFC), average variable cost (AVC), average total cost (ATC), marginal cost (MC), total revenue (TR), marginal revenue (MR) and profit at each level of production. Fill up the table above.**

                                                                                               (4 marks)

(b)   Referring to 2(a) above, when the price of a unit of production is RM50, the chief financial officer tells the CEO that it is better to produce one (1) unit of product because marginal revenue equals marginal cost at that quantity.

   (i)   **What is the firm's profit/loss at that level of production?**   (2 marks)

   (ii)   **Is this the best decision? Explain.**   (4 marks)

(c)   **If the price is RM50,**

   (i)   **the firm will minimize its loss by producing up to how many units?**

                                                                                               (2 marks)

   (ii)   **what is the total revenue and total cost?**   (2 marks)

   (iii)   **would this firm make a profit or a loss? How much is the profit/loss?**

                                                                                               (3 marks)

(d)   **If the firm shuts down its operations, what is the firm's profit/loss?**   (3 marks)

[Total: 20 marks]

Question 3

(a)   What are the four key characteristics of monopolistic competition?

(4 marks)

(b)   Using an appropriate diagram, explain how firms in monopolistic competition maximize profit. Label your diagram accurately.

(6 marks)

(c)   Define excess capacity.

(4 marks)

(d)   Explain why a profit-maximizing monopolistically competitive firm must operate with excess capacity in long-run equilibrium.

(6 marks)

[Total: 20 marks]

Question 4

(a)   List the four components of gross domestic product (GDP).   (4 marks)

(b)   Assume that the following data are from an economy that produces only Milo and honey.

Year	Price of Milo	Quantity of Milo	Price of Honey	Quantity of Honey
2015	RM1	100	RM2	50
2016	RM1	200	RM2	100
2017	RM2	200	RM4	100

(i)   Compute nominal GDP for each year, using 2015 as the base year.

(1.5 marks)

(ii)   Compute real GDP for each year, using 2015 as the base year.

(1.5 marks)

(iii)   Compute the GDP deflator for each year, using 2015 as the base year.

(1.5 marks)

(iv)   Calculate the percentage changes in nominal GDP, real GDP, and the GDP deflator in 2016 and 2017 from the preceding year.

(3 marks)

(v)   For each year, identify the variable that did not change. Explain your answer.

(3 marks)

(vi)   Did economic well-being rise more in 2016 or 2017? Explain.   (3 marks)

(c)   Why do economists use real GDP rather than nominal GDP to gauge economic well-being?

(2.5 marks)

[Total: 20 marks]

Question 5

(a) Suppose the Department of Statistics announced that in April 2019, of all adults, 140,000 were employed, 15,000 were unemployed, and 80,000 were not in the labour force. Use the information to calculate the following:

    (i) the labour force   (2 marks)

    (ii) the adult population   (2 marks)

    (iii) the labour force participation rate   (3 marks)

    (iv) the unemployment rate   (3 marks)

(b) **(i)** **Why is frictional unemployment inevitable?**   (5 marks)

    (ii) **How might the government reduce the amount of frictional unemployment?**
          (5 marks)

[Total: 20 marks]

Question 6

(a) **Define the following:**

    (i) **absolute advantage**

    (ii) **comparative advantage**

    (iii) **opportunity cost**
          (6 marks)

(b)

Good	Output per worker	
	Country	
	A	**B**
Good X	8	6
Good Y	4	2

The table above shows labour productivity, i.e., output per worker. These numbers report the quantity of output per unit of labour that each country can produce for two goods, X and Y.

Determine which country has

    (i) **absolute advantage in producing good X.**

    (ii) **absolute advantage in producing good Y.**

    (iii) **comparative advantage in producing good X.**

    (iv) **comparative advantage in producing good Y.**
          (6 marks)

(c)

Good	Unit labour requirement	
	Country	
	A	**B**
Steel	3	8
Brooms	2	1

Suppose that country A and country B have the unit labour requirements for producing steel and brooms as shown in the table above.

(i) **Which country has a comparative advantage in producing brooms?**

(ii) **Which country has a comparative advantage in producing steel?**

(iii) **Which country has an absolute advantage in producing steel?**

(iv) **Which country has an absolute advantage in producing brooms?**

(6 marks)

(d) According to the theory of comparative advantage, a country will export a good only if

_____

_____

(2 marks)

[Total: 20 marks]

(END OF QUESTION PAPER)