



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

PROFESSIONAL EXAMINATIONS

INTERMEDIATE LEVEL

ECONOMICS

JUNE 2019

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. Households and societies encounter many decisions because
 - A. goods and services are abundant.
 - B. resources are scarce.
 - C. incomes fluctuate with business cycles.
 - D. people usually tend to disagree with one another when they allocate resources.

2. In the circular-flow model,
 - A. firms purchase goods and services from households.
 - B. firms are sellers in the markets for factors of production and in the markets for goods and services.
 - C. households are regarded as sellers of the factors of production.
 - D. dollars that are spent on goods and services flow directly from either firms to households or households to firms.

3.

	Hours needed to make one		Amount produced in 40 hours	
	Cheese	Bread	Cheese	Bread
Malaysia	1	2	40	20
Indonesia	2	8	20	5

The above table indicates that Malaysia has a comparative advantage in

- A. bread and Indonesia has an absolute advantage in cheese.
 - B. cheese and Indonesia has an absolute advantage in both goods.
 - C. both goods and Indonesia has an absolute advantage in cheese.
 - D. bread and Indonesia has an absolute advantage in neither cheese nor bread.

4. A market
 - A. refers to an arrangement between buyers and sellers to exchange goods and services at a specific time and place.
 - B. is a group of buyers and sellers of a particular good or service.
 - C. is an arrangement in which an auctioneer plays at least a certain role in determining prices.
 - D. All of the above are correct.

5. When quantity demanded falls as the price rises, and rises as the price falls,
 - A. quantity supplied determines quantity demanded.
 - B. price is determined by quantity demanded.
 - C. quantity demanded is a function of demand.
 - D. quantity demanded is negatively related to the price.

6. When buyers of a good are required to pay a tax on the good,
- A. the demand curve shifts upward, causing both the price received by sellers and the equilibrium quantity to rise.
 - B. the supply curve shifts downward, causing the price received by sellers to fall and the equilibrium quantity to rise.
 - C. the demand curve shifts downward, causing both the price received by sellers and the equilibrium quantity to fall.
 - D. the supply curve shifts upward, causing the price received by sellers to rise and the equilibrium quantity to fall.
7. Tax causes a decrease in total surplus. The decrease is conceptualized as
- A. wedge loss.
 - B. revenue loss.
 - C. shrinkage of consumer surplus.
 - D. deadweight loss.
8. Based on rivalry and excludability characteristics, goods are classified into four types. Common resources are those, which are
- A. excludable and nonrival in consumption.
 - B. excludable and rival consumption.
 - C. nonexcludable and nonrival consumption.
 - D. nonexcludable and rival consumption.
9. When marginal cost rises, average variable cost
- A. rises
 - B. falls
 - C. may rise or fall.
 - D. remains constant.
- 10.

Number of Labourers	Output	Marginal Product of Labour (MPL)	Value of MPL (RM)	Wage (RM)
1	100		1,000	600
2		80	800	600
3		60		600
4	280		400	600
5		20		600

The table above demonstrates that the marginal product falls as the number of labourers increases. This is an example of

- A. utility maximization.
- B. diminishing marginal product.
- C. supply and demand.
- D. labour theory.

11. In 2018, gross domestic product (GDP) was RM3,000; investment was RM400; government purchases totalled RM300; and net exports amounted to RM70 in a certain country. The consumption was
- A. RM3,770.
 - B. RM1,330.
 - C. RM2,230.
 - D. 60 percent of GDP.

12.

Year	Apple (RM)	Orange (RM)
2017	11	6
2018	9	10

The table above indicates the prices of apples and oranges in a country. A typical consumer basket consists of 10 apples and 15 oranges. If we use 2017 as the base year, the CPI for 2018 is

- A. 100.
 - B. 120.
 - C. 200.
 - D. 240.
13. In 2017, real gross domestic product (GDP) reached RM750 billion and the population was 3 million in an economy. In 2018, real GDP increased to RM907.5 billion and the population to 3.3 million. The growth rate of per capita real GDP is
- A. 14 per cent.
 - B. 10 per cent.
 - C. 17 per cent.
 - D. 21 per cent.
14. When an individual purchases a stock from a firm, the stock represents
- A. the individual's claim to a share of the profits of the firm.
 - B. the individual's ownership in a firm.
 - C. equity finance.
 - D. All of the above are correct.
15. Malaysia's central bank, Bank Negara Malaysia, can increase the money supply by employing open market
- A. sales and raising the discount rate.
 - B. sales and lowering the interest rate.
 - C. purchases and raising the discount rate.
 - D. purchases and lowering the discount rate.

16. Jennifer opened a fitness studio where she teaches classes and sells fitness clothing. Variable costs for Jennifer's fitness studio include the cost of the
- (i) tank tops.
 - (ii) wages paid to the other fitness instructors.
 - (iii) rental on the studio space.
 - (iv) lease on the heavy fitness equipment in the studio.
- A. (i) only
 - B. (i) and (ii) only
 - C. (iii) and (iv) only
 - D. (i), (ii), (iii), and (iv)
17. If the nominal interest rate in Malaysia is 3 per cent and the inflation rate is 2 per cent in a certain year, then the real interest rate is
- A. 6 per cent
 - B. 5 per cent
 - C. 1 per cent
 - D. 1.5 per cent
18. If Malaysia sold RM52.4 billion worth of goods and services to Indonesia and registered net exports of RM8.3 billion against the country, Malaysia had
- A. \$60.7 billion of imports and \$52.4 billion of exports.
 - B. \$60.7 billion of exports and \$52.4 of imports.
 - C. \$52.4 billion of imports and \$44.1 billion of exports.
 - D. \$52.4 billion of exports and \$44.1 billion of imports.
19. All other things held constant in Malaysia, an increase in the price level in the country will cause the interest rate to
- A. increase, the ringgit to depreciate, and net exports to increase.
 - B. increase, the ringgit to appreciate, and net exports to decrease.
 - C. decrease, the ringgit to depreciate, and net exports to increase.
 - D. decrease, the ringgit to appreciate, and net exports to decrease.
20. If expected inflation remains unchanged and the nominal interest rate increased 4 percentage points, the real interest rate is likely to
- A. increase, but by less than 4 percentage points.
 - B. increase 4 percentage points.
 - C. decrease, but by less than 4 percentage points.
 - D. decrease by 4 percentage points.

SECTION B: Structured Questions (Total: 80 marks)

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

Question 1

- (a) How does a firm in perfect competition determine price and output in the short run?
(4 marks)
- (b) Using a diagram, illustrate and explain the position of a firm in perfect competition that is making an economic profit in the short run.
(8 marks)
- (c) Using a diagram, illustrate and explain what will happen to the firm in the long run.
(8 marks)

[Total: 20 marks]

Question 2

- (a) Using a market for loanable funds diagram, show and explain what happens to interest rate and investment if a government goes from running a budget deficit to a surplus.
(15 marks)
- (b) What is private saving and public saving? How are public saving and private saving related to national saving?
(5 marks)

[Total: 20 marks]

Question 3

Suppose this year's money supply is RM500 billion, nominal gross domestic product (GDP) is RM10 trillion, and real GDP is \$5 trillion.

- (i) What is the price level? What is the velocity of money?
(5 marks)
- (ii) Suppose velocity is constant and the economy's output of goods and services rises by five per cent each year. What will happen to nominal GDP and the price level next year if the central bank keeps the money supply constant?
(5 marks)
- (iii) What money supply growth should the central bank set next year if it wants to keep the price level stable?
(5 marks)
- (iv) What money supply growth should the central bank set next year if it wants an inflation rate of 10 per cent?
(5 marks)

[Total: 20 marks]

Question 4

- (a) What is a monopoly? Explain three key differences between perfect competition and a monopoly.

(8 marks)

- (b) Using a diagram, explain and illustrate why monopolies are regarded as inefficient in terms of social welfare.

(Hint: Please show monopoly price, monopoly quantity, efficient quantity and deadweight loss in your diagram).

(12 marks)

[Total: 20 marks]

Question 5

- (a) Use a diagram to illustrate the short-run trade-off between inflation and unemployment. How might the central bank move the economy from one point on the curve to another?

(8 marks)

- (b) Draw a diagram showing the long-run trade-off between inflation and unemployment. Explain how the short-run and long-run trade-offs are related.

(12 marks)

[Total: 20 marks]

Question 6

How can fiscal policy be used to increase the equilibrium level of real gross domestic product (GDP) while reducing the impact on inflation? Use the aggregate demand–aggregate supply model as the framework for your answer.

(No diagram is required.)

[Total: 20 marks]

(END OF QUESTION PAPER)