



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

**PROFESSIONAL EXAMINATIONS**

**INTERMEDIATE LEVEL**

**ECONOMICS**

**DECEMBER 2014**

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Student Reg. No	<input type="text"/>	Date	<input type="text"/>
Desk no	<input type="text"/>	Examination centre	<input type="text"/>

**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.
6. Answers should be written in either black or blue ink.
7. No question paper or answer booklet is to be removed from the examination hall.

***DO NOT TURN OVER THIS PAGE UNTIL INSTRUCTED BY THE INVIGILATOR***

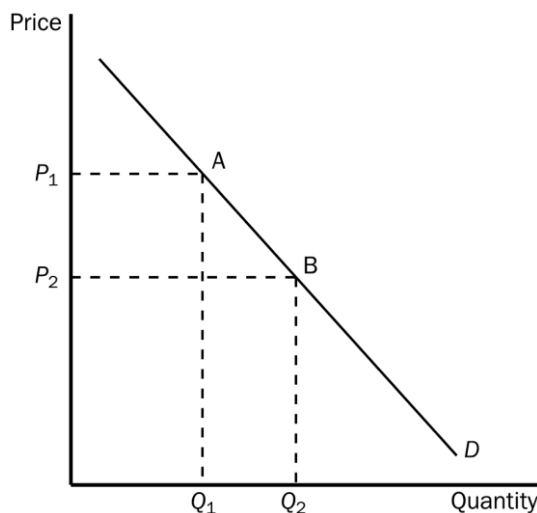
## SECTION A: Multiple Choice Questions (Total: 20 marks)

Answer **ALL** questions in the multiple choice answer sheet provided. Each question is worth one (1) mark.

- 1) Economics deals primarily with the concept of\_\_\_\_\_.
  - A. scarcity
  - B. poverty
  - C. economic change
  - D. power
  
- 2) When the government prevents prices from adjusting naturally to supply and demand,
  - A. it stabilizes the economy by reducing various market uncertainties.
  - B. it adversely affects the allocation of resources.
  - C. the improvement in equity justifies the reduction in efficiency.
  - D. the improvement in efficiency justifies the reduction in equity.
  
- 3) Taxes adversely affect the allocation of resources in society because
  - A. they do not always fall more heavily on the rich than on the poor.
  - B. they distort prices as well as the decisions of households and firms.
  - C. the taxes collected are not enough to finance government spending.
  - D. not everyone pays taxes.
  
- 4) In a competitive market,
  - A. an auctioneer helps set prices and arranges sales.
  - B. there is only a few sellers.
  - C. the forces of supply and demand do not apply.
  - D. no individual buyer or seller has any significant impact on the market price.
  
- 5) Which of the following would most likely serve as an example of a monopoly?
  - A. A bakery in a large city.
  - B. A bank in a large city.
  - C. A local cable television company.
  - D. A small group of corn farmers.

- 6) To say that the quantity demanded of a good is negatively related to the price of the good is to say that
- an increase in the quantity demanded of the good leads to a decrease in the price of the good.
  - an increase in the price of the good leads to a decrease in the quantity demanded of the good.
  - relationship between the quantity demanded of a good and the price of the good is weak.
  - there is no relationship between the quantity demanded of a good and the price of the good.
- 7) Two goods are substitutes if a decrease in the price of one good
- decreases the demand for the other good.
  - decreases the quantity demanded of the other good.
  - increases the demand for the other good.
  - increases the quantity supplied of the other good.
- 8) Refer to Figure 1. The movement from point A to point B on the curve shows
- an increase in quantity demanded.
  - a decrease in demand.
  - an increase in demand.
  - a decrease in quantity demanded.

**Figure 1**



- 9) Which of the following changes would not shift the demand curve for a good?
- A change in income.
  - A change in the price of the good.
  - A change in expectations about the future price of the good.
  - A change in technology.

- 10) You are the mayor of a small town with 3,000 residents. Your cultural development officer recently conducted a survey in which the 3,000 residents said that a public concert in the center of town would be worth RM20 to each of them. Since the concert cost only RM5,000 to hold, you organized and held the concert, which everyone in the town enjoyed. However, when you asked for donations to pay for the concert, you only collected RM300. You are convinced that
- A. the survey must have overstated how much the concert was worth to each resident; otherwise, you would have collected RM60,000 in donations.
  - B. the cost of the concert exceeded the social benefits.
  - C. the concert was an example of the Tragedy of the Commons.
  - D. residents of the town were probably free-riders at the concert.
- 11) Which of the following areas of study typifies macroeconomics as opposed to microeconomics?
- A. The effects of rent control on the availability of housing in Penang.
  - B. The economic impact of flood in Kedah and Perlis.
  - C. How imposing a tariff on shoes affects the shoe industry.
  - D. The effect on the economy of changes in Malaysia's unemployment rate.
- 12) Which of the following is an example of a normative statement?
- A. If the price of a product decreases, people's willingness to buy that product will increase.
  - B. The government should increase the minimum wage to reduce poverty.
  - C. If the national saving rate were to increase, so would the rate of economic growth.
  - D. Higher interest rates will reduce house prices.
- 13) Gross domestic product serves as a measure of two things:
- A. the total spending of everyone in the economy and the total saving of everyone in the economy.
  - B. the total income of everyone in the economy and the total expenditure on the nation's output of goods and services.
  - C. the value of the nation's output of goods and services for domestic citizens and the value of the nation's output of goods and services for the rest of the world.
  - D. the nation's saving and the nation's investment.
- 14) Changes in the quantity of money affect \_\_\_\_\_.
- A. interest rates
  - B. prices
  - C. production
  - D. All of the above are correct.

- 15) Which of the following is a function of money?
- A. Unit of account.
  - B. Store of value.
  - C. Medium of exchange.
  - D. All of the above are correct.
- 16) Which of the following actions by the central bank would increase the money supply?
- A. Lower the discount rate, raise the reserve requirement ratio.
  - B. Lower the discount rate, lower the reserve requirement ratio.
  - C. Raise the discount rate, raise the reserve requirement ratio.
  - D. Raise the discount rate, lower the reserve requirement ratio.
- 17) The consumer price index (CPI) rises from 120 to 150. What is the inflation rate?
- A. 80%
  - B. 25%
  - C. 20%
  - D. None of the above, as the inflation rate can only be calculated from a base of 100.
- 18) The nominal interest rate is 4.5 percent and the inflation rate is 0.9 percent. What is the real interest rate?
- A. 5.4 percent
  - B. 5 percent
  - C. 4.1 percent
  - D. 3.6 percent
- 19) Which of the following is correct concerning recessions?
- A. They come at fairly regular and predictable intervals.
  - B. They are associated with comparatively large declines in investment spending.
  - C. They are any period when real GDP growth is less than average.
  - D. They tend to be associated with falling unemployment rates.
- 20) With all other things being equal or held constant, as the price level falls, a country's exchange rate
- A. appreciates and interest rates rise.
  - B. depreciates and interest rates fall.
  - C. depreciates and interest rates rise.
  - D. appreciates and interest rates fall.

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## SECTION B: Structured Questions (Total: 80 marks)

Answer any **FOUR** questions out of SIX in this section. Each question is worth twenty (20) marks. **All calculations are required to be shown in full.**

### Question 1

- (a) If the price of good increases from RM20 per unit to RM30 per unit, and the quantity supplied increases from 120 to 140 units, calculate the elasticity of supply.

**(6 marks)**

- (b) The demand function of good X is  $Q_d = 100 - 2P$ . Calculate the price elasticity of demand for X if price increases from RM2 per unit to RM3 per unit.

**(6 marks)**

- (c) Calculate the income elasticity of demand for good Y based on the information given below. Explain why you think this good is a normal good, necessity good or giffen good.

Income	Quantity demanded
RM1,000	50
RM2,000	50

**(8 marks)**

**[Total: 20 marks]**

### Question 2

- (a) Complete the following table for marginal product and average product by redrawing the table in your answer sheet.

**(6 marks)**

Labour (Unit)	Total Product (TP)	Marginal Product (MP)	Average Product (AP)
0	0		
1	80		
2	200		
3	330		
4	400		
5	450		
6	480		
7	490		
8	480		

- (b) Explain the law of diminishing marginal returns. **(6 marks)**

- (c) Based on the numbers in the table above, state at which level of labour does diminishing marginal product starts to set in. **(2 marks)**

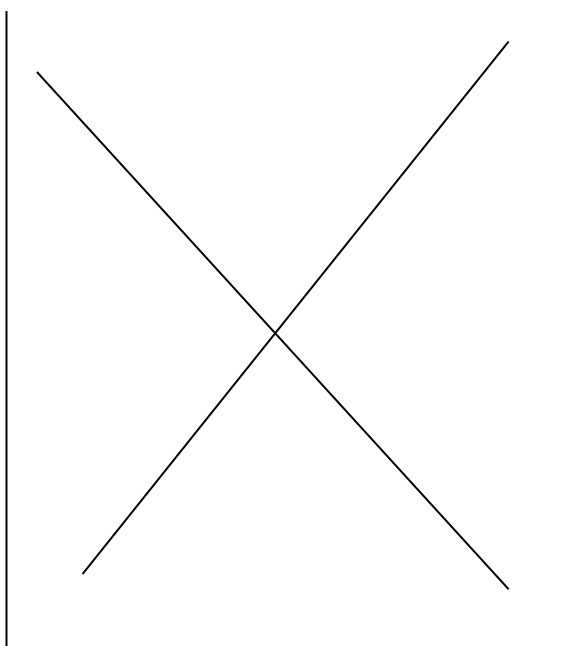
- (d) Explain the relationship between marginal product and average product. **(6 marks)**

**[Total: 20 marks]**

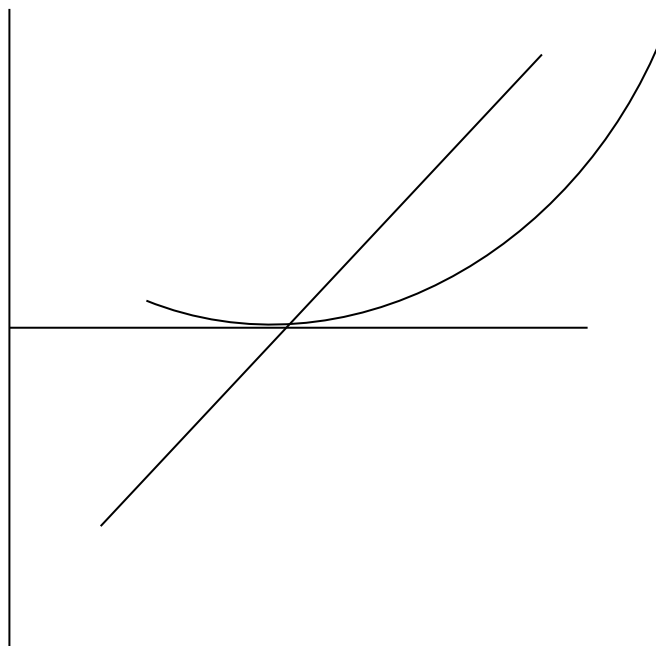
### Question 3

- (a) The two unlabelled diagrams below are for an industry and for a firm in perfect competition in the market for durians.  
*Redraw the diagrams in your examination script booklet.*

(a)



(b)



- (i) On your diagrams, label which diagram represents the industry and which diagram represents the firm. **(2 marks)**
- (ii) Label each axis on the diagrams. **(1 mark)**
- (iii) Label each of the curves on the diagrams. You should choose terms from the following list: **(3 marks)**
- average revenue
  - total revenue
  - marginal revenue
  - average total cost
  - average variable cost
  - total cost
  - marginal cost
  - production function
  - marginal product of labour
  - demand
  - supply
- (iv) Label the equilibrium quantity in each diagram as Q1 and the equilibrium price as P1. **(1 mark)**
- (b) Is this firm currently maximising profits? Explain. **(3 marks)**

- (c) Is the firm making a profit? Explain. **(3 marks)**
- (d) Is the firm shown in the diagram above currently in a long-run or short-run equilibrium position? Explain your answer. **(7 marks)**

**[Total: 20 marks]**

**Question 4**

Below are some data from the land of milk and honey.

Year	Price of Milk	Quantity of Milk	Price of Honey	Quantity of Honey
2010	RM1	100	RM2	50
2011	RM1	200	RM2	100
2012	RM2	200	RM4	100

- (a) Compute the nominal GDP and real GDP for each year, using 2010 as the base year. **(10 marks)**
- (b) Compute the percentage change in nominal GDP and real GDP in 2011 and 2012 from the preceding year. **(10 marks)**

**[Total: 20 marks]**

**Question 5**

Suppose the working adult population in a country is 400 million and the labour force participation rate is 65 percent. Employment is 200 million.

- (a) What is the size of the labour force? **(5 marks)**
- (b) What is the unemployment rate? **(5 marks)**
- (c) What is frictional unemployment? How do you suggest it can be reduced? **(10 marks)**

**[Total: 20 marks]**

**Question 6**

- (a) What does the Aggregate Demand (AD) curve represent? **(4 marks)**
- (b) List and explain three reasons why the Aggregate Demand (AD) curve is downward sloping. **(9 marks)**
- (c) What might shift the Aggregate Demand (AD) curve to the left? **(7 marks)**

**[Total: 20 marks]**

**(End of Question Paper)**