



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

PROFESSIONAL EXAMINATIONS

INTERMEDIATE LEVEL

ECONOMICS

JUNE 2016

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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.
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 is best defined as the study of
  - A. the government's role in society.
  - B. how a market system functions.
  - C. how society manages its scarce resources.
  - D. how to address economic development challenges.
  
2. A point on an economy's production possibility frontier refers to the combination of two goods that the economy
  - A. is able to produce more than what is currently being produced without additional resources.
  - B. can produce using some portion, but not all, of its resources and technology.
  - C. may be able to produce in the future with more resources and/or superior technology.
  - D. can produce using all available resources and technology.
  
3. Microeconomics is primarily concerned with
  - A. how individual households and firms make decisions.
  - B. measurements of national aggregate demand.
  - C. how government affects the economy.
  - D. None of the above.
  
4. "The introduction of the GST (goods and services tax) in April 2015 affects the retail market in Malaysia" is an example of a
  - A. negative statement.
  - B. positive statement.
  - C. normative statement.
  - D. statement that contradicts one of the basic principles of economics.
  
5. The price elasticity of demand is defined as
  - A. the percentage change in the quantity demanded divided by the percentage change in price.
  - B. the percentage change in price divided by the percentage change in the quantity demanded.
  - C. the percentage change in the quantity supplied divided by the percentage change in price.
  - D. None of the above.

6. The fall in total surplus that results from a market distortion, such as a tax, is known as a
- wedge loss.
  - deadweight loss.
  - negative externality.
  - shrinkage of consumer surplus.
7. A market structure in which only a few sellers offer similar or identical products is known as
- monopoly.
  - oligopoly.
  - perfect competition.
  - monopolistic competition.
8. Consider the following daily production data for a soccer ball manufacturer in Malaysia. The manufacturer sells soccer balls for 50 cents each and pays the workers a wage of RM30 a day.

| Labour<br>(number of workers) | Quantity<br>(soccer balls per day) | Marginal Product of Labour<br>(soccer balls per day) |
|-------------------------------|------------------------------------|--|
| 0                             | 0                                  |  |
| 1                             | 100                                | ?  |
| 2                             | 250                                | 150  |
| 3                             | 375                                | ?  |
| 4                             | 475                                | ?  |
| 5                             | 550                                | ?  |
| 6                             | 600                                | ?  |

Refer to the table above. What is the fifth worker's marginal product of labour?

- 50 soccer balls.
  - 75 soccer balls.
  - 100 soccer balls.
  - 125 soccer balls.
9. Among the individuals who are characterized below, who has the highest opportunity cost of leisure?
- a professor who earns RM200 per hour and who plays golf during his leisure time.
  - a medical doctor who earns RM250 per hour and who sleeps during his leisure time.
  - a retail clerk who earns RM15 per hour and who watches TV during her leisure time.
  - an actress who earns RM300 per hour and who reads poetry during her leisure time.

10. The relationship between income and quantity demanded
- A. does not apply to goods in the economy.
  - B. is referred to as the law of supply.
  - C. is referred to as the law of demand.
  - D. all of the above are incorrect.
11. How does Malaysia's gross domestic product (GDP) differ from its gross national product (GNP)?
- A.  $GNP = GDP$  minus losses from depreciation.
  - B.  $GNP = GDP +$  income earned by corporations.
  - C.  $GNP = GDP +$  income earned by Malaysian citizens abroad - income earned by expatriates in Malaysia.
  - D.  $GNP = GDP -$  indirect business taxes + business subsidies.
12. Which of the following are included in the gross domestic product (GDP) of Malaysia?
- i. your cousin volunteers to clean and maintain your vacation home
  - ii. services of accountant hired by charity home
  - iii. the estimated rental value of owner-occupied housing
  - iv. fee for Dr. Flatters, Canadian management consultant working in Kuala Lumpur
- A. ii and iv only
  - B. iii and iv only
  - C. ii, iii and iv only
  - D. i, ii and iii only
13. Classical macroeconomic theory maintains that changes in the money supply affect
- A. nominal variables and real variables.
  - B. real variables but not nominal variables.
  - C. nominal variables but not real variables.
  - D. neither nominal or real variables.
14. According to Keynesian theory, if Malaysia experiences high unemployment, the country should adopt policies to
- A. reduce the money supply.
  - B. reduce government expenditures.
  - C. increase aggregate supply.
  - D. increase aggregate demand.
15. Economists usually recommend
- A. trade restrictions.
  - B. government management of trade.
  - C. free trade between countries.
  - D. export subsidies.

16. Which of the following is correct?
- A. Policymakers cannot exploit a trade-off between inflation and unemployment in either the short or long run.
  - B. Policymakers can exploit a trade-off between inflation and unemployment in the long run but not the short run.
  - C. Policymakers can exploit a trade-off between inflation and unemployment in the short run but not in the long run.
  - D. Policymakers can exploit a trade-off between inflation and unemployment in both the short run and the long run.
17. When the economy is experiencing unemployment above the natural rate, which of the following policies would stabilization policy activists support?
- A. A decrease in the money supply.
  - B. A reduction in government purchases.
  - C. A reduction in tax rates.
  - D. An increase in interest rates.
18. The theory of liquidity preference advances that the nominal supply of money in a country is determined by the country's
- A. level of real GDP.
  - B. rate of inflation.
  - C. level of real GNP.
  - D. central bank.
19. Fiscal policy supports the idea that aggregate demand is influenced by changes in
- A. the money supply.
  - B. trade policy.
  - C. government spending and taxes.
  - D. the country's working age group.
20. Suppose Bank Negara Malaysia makes monetary policy more expansionary. In the long run
- A. both inflation and the unemployment rate will be higher than they were prior to the change in policy.
  - B. inflation and the unemployment rate will be lower than they were prior to the change in policy.
  - C. inflation will be lower while unemployment will remain the same compared to before the change in policy.
  - D. inflation will be higher while the unemployment rate will remain the same compared to before the change in policy.

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

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

### Question 1

Since three decades ago, country X has built numerous steel plants. The steel industry was protected from international competition by very high tariffs which were later removed. We assume that country X is a price-taker in the steel market.

- (a) Draw an appropriate demand-supply diagram with proper labels depicting the steel industry in the country. Use the following table to identify consumer surplus, producer surplus, deadweight loss and government revenue in your diagram, both before and after the removal of tariffs. Explain the welfare changes that occur after the tariffs were removed.

|                    | With tariff | Without tariff | Change |
|--------------------|-------------|----------------|--------|
| Consumer surplus   |             |                |        |
| Producer surplus   |             |                |        |
| Government revenue |             |                |        |
| Deadweight loss    |             |                |        |

(15 marks)

- (b) Identify the winners and losers from removing tariffs.

(5 marks)

**[Total: 20 marks]**

### Question 2

You run a theatre and charges the same admission price to all customers regardless of age. You then hire an economist to determine the price elasticity of demand for admissions by age group. He tells you that, at the current price, demand by adults is inelastic and demand by children is elastic.

- (a) Define what is “price elasticity of demand”. (5 marks)

- (b) Analyse the relationship between revenue and price elasticity of demand when there is a price change for the following: inelastic demand; elastic demand; and, perfectly inelastic demand.

(9 marks)

- (c) Based on the information above, can you increase your revenue through adjusting the admission price? If so, how?

(6 marks)

**[Total: 20 marks]**

### Question 3

Mexico represents a small part of the global market for steel.

- (a) Draw a diagram depicting the equilibrium in the Mexican steel market without international trade. Identify the equilibrium price, equilibrium quantity, consumer surplus, and producer surplus. (5 marks)
- (b) Assume that the global price of steel is below the Mexican price before trade. Then the Mexican steel market is open to international trade. Draw a diagram to identify the new equilibrium price, quantity consumed, quantity produced domestically, and quantity imported. Provide an explanation of the diagram.

Also, show the change in the surplus of domestic consumers and producers. Did total surplus increase or decrease? Use the table below.

|                  | Before trade | After trade | Change |
|------------------|--------------|-------------|--------|
| Consumer surplus |              |             |        |
| Producer surplus |              |             |        |
| Total surplus    |              |             |        |

(10 marks)

- (c) List five justifications commonly used to defend restrictive trade policies, with a brief explanation for each.

(5 marks)

**[Total: 20 marks]**

### Question 4

- (a) In the year 2010, the economy produced 100 loaves of bread that sold for RM2 each. In the following year, the economy produced 200 loaves of bread that sold for RM3 each. Calculate nominal gross domestic product (GDP), real GDP and the GDP deflator for each year, using 2010 as the base year. Use the table below:

| Year | Nominal GDP | Real GDP | GDP Deflator |
|------|-------------|----------|--------------|
| 2010 |             |          |              |
| 2011 |             |          |              |

(3 marks)

- (b) From the above calculations, compute the percentage change for each of the three variables from one year to the next. Show your calculations step-by-step.

(3 marks)

- (c) Define Gross Domestic Product or GDP. List four components of GDP and give an example of each.

(8 marks)

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

(6 marks)

**[Total: 20 marks]**

### Question 5

- (a) What is “money”? (2 marks)
- (b) What are the three functions of money? Explain each in detail. (9 marks)
- (c) Explain how currency holdings and banks’ reserve management can decrease the money-creating potential of the banking system.

(9 marks)

**[Total: 20 marks]**

### Question 6

- (a) List and explain four types of unemployment. (8 marks)
- (b) How can the government reduce frictional unemployment? (4 marks)
- (c) Using a diagram of the labour market, show the effects of an increase in the minimum wage on the wage paid to workers, the number of workers supplied and demanded, and the amount of unemployment.

(8 marks)

**[Total: 20 marks]**

**(END OF QUESTION PAPER)**

