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

PROFESSIONAL EXAMINATIONS

INTERMEDIATE LEVEL

ECONOMICS

PILOT PAPER

ANSWERS

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

Answer all questions in the multiple choice answer sheet provided.

Each question is worth 1 mark.

1. Answer: C

2. Answer: D

3. Answer: B

4. Answer: B

5. Answer: B

6. Answer: C

7. Answer: B

8. Answer: B

9. Answer: A

10. Answer: B

11. Answer: C

12. Answer: C

13. Answer: B

14. Answer: B

15. Answer: D

16. Answer: D

17. Answer: C

18. Answer: B

19. Answer: C

20. Answer: C

[Total 20 marks]

SECTION B: Structured Questions (Total: 80 marks)

Answer any FOUR questions in this section. Each question is worth twenty (20) marks.

Question 1

(a) Equilibrium quantity and price are obtained when quantity demanded equals quantity supplied.

$Qd = Qs$
$-20P + P = 220 - 5P$
$8P = 240$
$P = 240/8 = 30$

Substitute P = 30 into the demand or supply equation. So,

$Qs = 220 - 5(30) = 70 = Qd$
$Qs = 220 - 5P$ or

$Qd = -20 + 3P$
$\quad = -20 + 3(30)$
$\quad = -20 + 90 = 70$ **(5 marks)**
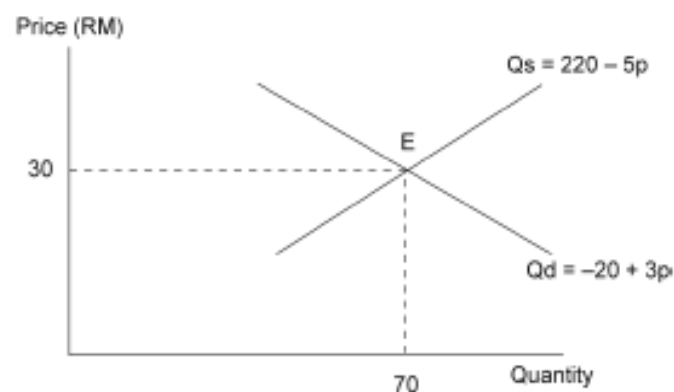
(b)

Price (RM)	10	20	30	40	50
Quantity demanded (unit)	10	40	70	100	130
Quantity supplied (unit)	170	120	70	20	-30
Surplus/shortage (unit)	160	80	0	-80	-160

(5 marks)

(c)

(5 marks)

3

(d) Ed = %ΔQ/%Δ P = -30% / 10% = -3. Price elasticity of demand is 3.

(5 marks)

[TOTAL: 20 marks]

Question 2

    a) Point A.
    b) Point C.
    c) Point C.
    d) Point B.

(5 marks each, Total: 20 marks)

Question 3

a) Students should list and briefly explain any three of the following:
- Decrease in income.
- Decrease in price of substitute goods.
- Increase in the price of complementary goods.
- Change in tastes where consumers' preferences for the good decline.
- Change in expectations – e.g. expect price of good to fall in the future.
- Decrease in the number of buyers in the market.

(10 marks)

b) Students should list and briefly explain any two of the following:
- Input prices fall.
- Technology changes resulting in the cost of production declining.
- Change in expectations – e.g. expect future prices to fall, may produce more now.

(10 marks)

[Total: 20 marks]

Question 4

a)

Year	Nominal GDP	Real GDP	GDP Deflator
2010	100 X $2 = $200	100 X $2 = $200	($200/$200) X 100 = 100
2011	200 X $3 = $600	200 X $2 = $400	($600/$400) X 100 = 150

(10 marks)

b)

   i. The percentage change in nominal GDP is (600 – 200)/200 x 100% = 200%.
   ii. The percentage change in real GDP is (400 – 200)/200 x 100% = 100%.
   iii. The percentage change in the deflator is (150 – 100)/100 x 100% = 50%.

(10 marks)

[Total: 20 marks]

Question 5

a) Labour force = number of employed (139,445,000) + the number of unemployed (15,260,000) = 154,705,000.

(5 marks)

b) Adult population = labour force (154,705,000) + number of people not in the labour force (82,614,000) = 237,319,000.

(5 marks)

c) Labour force participation rate = labour force (154,705,000) / adult population (237,319,000) * 100% = 65.2%.

(5 marks)

d) Unemployment rate = number of unemployed (15,260,000) / labour force (154,705,000) * 100% = 9.9%.

(5 marks)

[Total: 20 marks]

Question 6

a) Three theories explain why the short-run aggregate-supply curve is upward sloping:

    i.   the sticky-wage theory, in which a lower price level makes employment and production less profitable because wages do not adjust immediately to the price level, so firms reduce the quantity of goods and services supplied;

    ii.   the sticky-price theory, in which an unexpected fall in the price level leaves some firms with higher-than-desired prices because not all prices adjust instantly to changing conditions, which depresses sales and induces firms to reduce the quantity of goods and services they produce; and

    iii.   the misperceptions theory, in which a lower price level causes misperceptions about relative prices, and these misperceptions induce suppliers to respond to the lower price level by decreasing the quantity of goods and services supplied.

(10 marks)

b) The long-run aggregate supply curve is vertical because in the long run, an economy's supply of goods and services depends on its supplies of capital, labour and natural resources, and on the available production technology used to turn these resources into goods and services. The price level does not affect these long-run determinants of real GDP.

(10 marks)

[Total: 20 marks]

End of marking scheme!