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

**PROFESSIONAL EXAMINATIONS**

**INTERMEDIATE LEVEL**

**ECONOMICS**

**DECEMBER 2019**

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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.

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.

*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.  When a person studies at a university, his or her opportunity cost of attending the university is

    A.  the money spent on food, clothing, books, transportation, tuition, lodging and other expenses.
    B.  the value of the best opportunity he or she gives up in order to attend the university.
    C.  close to zero if he or she is fortunate enough to have all of the expenses provided by someone else.
    D.  close to zero, because a university education will allow him or her to earn a larger income after graduating.

2.  We may describe a model as a

    A.  theoretical abstraction with limited practical value.
    B.  tool that is useful only to the individuals who develop it.
    C.  realistic and carefully developed theory.
    D.  simplified version of reality.

3.  Suppose a farmer utilizes all of his available resources to produce 120 sweet melons. If he sacrifices 1.5 watermelons for each sweet melon that he produces, we may conclude that;

    A.  if he devotes all of his available resources to watermelon production, he can produce 80 watermelons.
    B.  he cannot have a comparative advantage over other farmers in producing sweet melons.
    C.  his opportunity cost of one watermelon is 2/3 of a sweet melon.
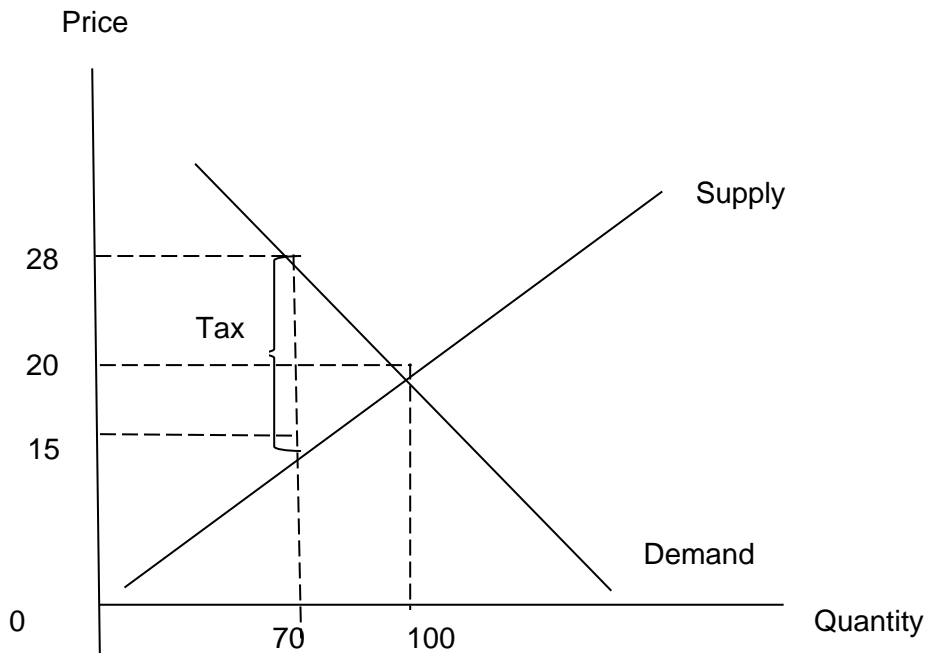    D.  All of the above are correct.

4.  In a competitive market,

    A.  one or two buyers or sellers set prices and arrange sales.
    B.  there are only a limited number of sellers or buyers or both.
    C.  the "invisible hand" does not work.
    D.  no individual buyer or seller can significantly influence the market price.

5.  The law of demand works, when

    A.  relative to last month, Khadija buys more peaches at RM1.50 per apple because she got a raise at work this month.
    B.  Aisha buys fewer muffins at RM0.75 per muffin than at RM1 per muffin, all else unchanged.
    C.  Grace buys more doughnuts at RM0.25 per doughnut than at RM0.50 per doughnut, all else unchanged.
    D.  Claudia buys fewer apples at RM0.60 per apple since the price of oranges fell to RM0.50 per orange.

6. Suppose the following two events take place simultaneously: increase in the number of buyers in a market, and technological advancement. Which of the following will happen in terms of equilibrium price and quantity?

   A. The price increases, but the quantity may increase, decrease, or remain unchanged.
   B. The price decreases, but the quantity may increase, decrease, or remain unchanged.
   C. Quantity increases, but price may increase, decrease, or remain unchanged.
   D. Both price and quantity increase.

7.



   Refer to the figure above. The equilibrium price before the tax is imposed is

   A. RM28 and the equilibrium quantity is 70.
   B. RM20 and the equilibrium quantity is 100.
   C. RM15 and the equilibrium quantity is 70.
   D. RM8 and the equilibrium quantity is 100.

8. A free-rider problem arises for a good or service that is

   A. rival in consumption.
   B. a private good.
   C. free.
   D. non-excludable.

9.  Consider the following information about bread production at Alisha's bread shop:

| Worker | Marginal Product |
|--------|------------------|
| 1 | 5 |
| 2 | 7 |
| 3 | 10 |
| 4 | 11 |
| 5 | 8 |
| 6 | 6 |
| 7 | 4 |

Alisha pays all her workers the same wage. The only variable cost that she pays is for labour. Drawing on this information, we can conclude that bread's marginal cost

A.  declines as its output increases from 0 to 33, but increases after that.
B.  declines as its output increases from 0 to 11, but increases after that.
C.  increases as its output increases from 0 to 11, but declines after that.
D.  remains unaltered.

10. Suppose a company currently hires workers. If each extra worker adds progressively smaller amounts of output, then we can suggest that

A.  diminishing profitability is present.
B.  diminishing marginal cost is present.
C.  diminishing marginal product is present.
D.  diminishing total product is present.

11. Economists define a country's gross domestic product as

A.  the market value of all final goods and services produced within the geographic boundary of the country in a certain period of time.
B.  the market value of all tangible goods produced within the country in a given period of time.
C.  the quantity of all final goods and services supplied within the country in a given period of time.
D.  the quantity of all final goods and services demanded or supplied within the geographic boundary of the country in a given period of time.

12. The price index is 320 in the year of 2017, and 360 in the next year. The inflation rate over that period is

A.  6.7 per cent.
B.  8 per cent.
C.  12.5 per cent.
D.  40 per cent.

13. In 2017, a country had a population of 2,700 with real gross domestic product (GDP) of $11,610,000. In the previous year, the country had a population of 2,500 with real GDP of $10,000,000. The estimated growth rate of per capita real GDP in the country between the two years is

A.  7.5 per cent.
B.  12.5 per cent.
C.  20.5 per cent.
D.  35.5 per cent.

14. Financial intermediaries include

    A. both banks and mutual funds.
    B. banks but not mutual funds.
    C. mutual funds but not banks.
    D. neither banks nor mutual funds.

15. In Malaysia, Bank Negara Malaysia can influence unemployment in

    A. the short and long run.
    B. the short run, but not the long run.
    C. the long run, but not the short run.
    D. neither the short nor long run.

16. Suppose a commercial bank has RM300 billion in reserves. The central bank sets the minimum reserve requirement at 10 per cent. If the bank has RM3 billion of excess reserves, the value of deposits is

    A. RM3,300 billion.
    B. RM2,970 billion.
    C. RM2,700 billion.
    D. RM2,673 billion.

17. Suppose the central bank in a country raises the money supply. Consequently, 1/P (P stands for price level),

    A. falls, so the value of money falls.
    B. falls, so the value of money rises.
    C. rises, so the value of money falls.
    D. rises, so the value of money rises.

18. When Indonesia experiences a trade surplus,

    A. the country has positive net exports and positive net capital outflow.
    B. the country has positive net exports and negative net capital outflow.
    C. the country has negative net exports and positive net capital outflow.
    D. the country has negative net exports and negative net capital outflow.

19. *Ceteris paribus*, a decrease in the price level causes real wealth to

    A. fall, interest rates to fall, and the dollar to appreciate.
    B. fall, interest rates to rise, and the dollar to depreciate.
    C. rise, interest rates to rise, and the dollar to appreciate.
    D. rise, interest rates to fall, and the dollar to depreciate.

20. Identify the event that will shift the money demand curve to the right.

    A. An increase in the interest rate or an increase in the price level.
    B. An increase in the interest rate but not an increase in the price level.
    C. An increase in the price level but not an increase in the interest rate.
    D. Neither an increase in the interest rate nor an increase in the price level.

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

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

**Question 1**

(a) What is a negative externality? What are three possible negative externalities that are associated with driving cars and trucks? Describe each briefly.

(7 marks)

(b) Why are Pigovian taxes preferred to regulatory policies as methods to remedy negative externalities?

(6 marks)

(c) To produce honey, beekeepers place hives of bees in the fields of farmers. As bees gather nectar, they pollinate the crops in the fields, which increases the yields of these fields at no additional cost to the farmer. However, both the farm fields and the beehives businesses are operated by different people, which may cause negative externality. What might be a reasonable private solution to this externality, and how might the solution be reached?
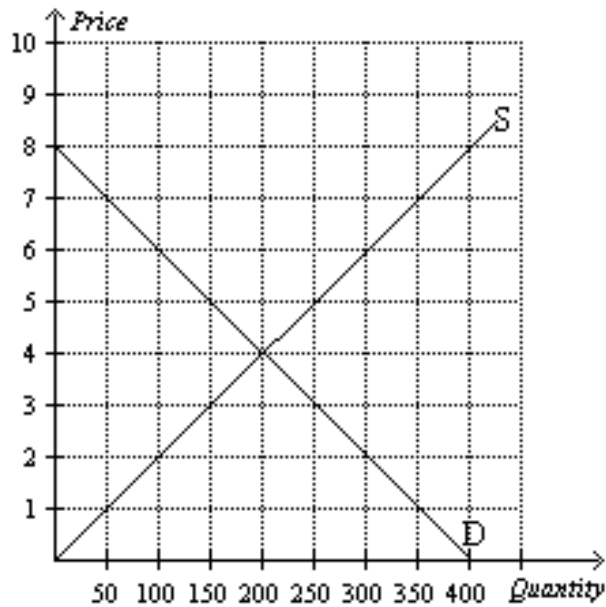
(7 marks)

**[Total: 20 marks]**

**Question 2**

(a) If the reserve ratio is 12.5 per cent, what is the value of the money multiplier?

(4 marks)

(b) Suppose a bank has RM3,000 in reserves, RM25,000 of deposits, and the central bank stipulates a 10 per cent reserve requirement. What is the amount of excess reserves?

(4 marks)

(c) A bank has RM1000 in deposits and maintains a 12 per cent reserve ratio. Calculate its reserves.

(4 marks)

(d) Suppose the required reserve ratio is 20 per cent. What is the maximum amount of total money supply that can be created from an initial deposit of RM200? In general, why might the actual amount of total money creation be less than the maximum?

(8 marks)

**[Total: 20 marks]**

**Question 3**

**(a)** Consider the market for light bulbs below. Answer the following questions.



**(i)** What are the values of the equilibrium price and quantity?

(2 marks)

**(ii)** At a price of RM3, is there a shortage or surplus, and how large is the shortage/surplus?

(2 marks)

**(iii)** At a price of RM6, is there a shortage or surplus, and how large is the shortage/surplus?

(2 marks)

**(iv)** Suppose there is an improvement in technology in the production of light bulbs. The price of lamps, a complementary good, also increases. What changes do you predict in the equilibrium price and quantity for light bulbs?

(4 marks)

**(b)** Consider the following pairs of goods. For which of the two goods would you expect the demand to be more price elastic? Why?

**(i)** water or diamonds (2.5 marks)

**(ii)** food in general or breakfast cereal (2.5 marks)

**(iii)** gasoline over the course of a week or gasoline over the course of a year

(2.5 marks)

**(iv)** personal computers or IBM personal computers (2.5 marks)

**[Total: 20 marks]**

**Question 4**

**(a)** **Explain how a profit-maximizing monopolist chooses its level of output and the price of its goods. A diagram is needed to illustrate your answer.**

(10 marks)

**(b)** **Graphically depict the deadweight loss caused by a monopoly. How is this similar to the deadweight loss from taxation?**

(10 marks)

**[Total: 20 marks]**

**Question 5**

Suppose that the government increases expenditures by RM150 billion. At the same time, it also raises taxes by RM150 billion. Assume that the marginal propensity to consume (MPC) is 0.80 and that there are no crowding-out or accelerator effects.

**(i)** **Calculate the multiplier effect.**

(5 marks)

**(ii)** **Calculate the impact on aggregate demand (AD) from the increase of RM150 billion in government expenditures.**

(6 marks)

**(iii)** **Following the increase in taxes, calculate the effect on income and consumption.**

(9 marks)

**[Total: 20 marks]**

**Question 6**

**(a)** **What is Gross Domestic Product (GDP)? What are the components of GDP?**

(4 marks)

**(b)** **Provide four examples of factors that would shift the aggregate demand curve to the right.**

(8 marks)

**(c)** **Provide four examples of factors that would shift the long-run aggregate supply curve to the right.**

(8 marks)

**[Total: 20 marks]**

**(END OF QUESTION PAPER)**