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

PROFESSIONAL EXAMINATIONS

INTERMEDIATE LEVEL

ECONOMICS

JUNE 2017

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. Economics is a discipline that primarily studies how to

    A. best keep all businesses economically viable.
    B. show that the market economy is better than other types of economies.
    C. manage a society's scarce resources.
    D. determine the fair distribution of a society's production.

2. The production possibility frontier is a

    A. curve that represents the various efficient combinations of output the economy can produce, given the available resources and technology.
    B. curve that represents the various efficient combinations of resources the economy can produce, given a certain amount of output to be produced.
    C. curve that represents the various efficient combinations of agricultural output the economy can produce, given the available agricultural land and workers.
    D. curve that represents the various combinations of industrial and agricultural goods the economy can produce.

3. An economy's consumption possibility frontier can be moved outside its production possibility frontier

    A. by producing a greater variety of goods and services.
    B. by allocating resources in the most efficient way.
    C. through engaging in international trade.
    D. by becoming more self-sufficient.

4. A market with only one seller is known as a

    A. monopolistic market.
    B. competitive market.
    C. oligopolistic market.
    D. monopolistic competitive market.

5. A perfectly inelastic demand occurs when consumers

    A. purchase less when the price goes up.
    B. respond positively to an increase in price.
    C. increase their purchases considerably when the price falls.
    D. purchase the same amount regardless of the price.

6. If a binding price ceiling is imposed on the market,

    A. the equilibrium price must be below the price ceiling.
    B. the equilibrium price must be above the price ceiling.
    C. the forces of supply and demand lead to an equilibrium in the market and thereby set the market price.
    D. it will not have any effect either on supply or demand.

7. When Malaysia imposes a tax on cigarettes, given a competitive market,

    A. the full burden of the tax shifts to buyers.
    B. sellers always bear the full burden of the tax.
    C. buyers and sellers share the burden of the tax, although it is imposed on buyers.
    D. sellers do not bear the full burden.

8.   If a good is excludable but non-rival, it can be defined as a

     A.   natural monopoly.
     B.   private good.
     C.   public good.
     D.   common resource.

9.   The money that a firm receives from the sale of its output is known as

     A.   total gross profit.
     B.   total net profit.
     C.   total revenue.
     D.   marginal revenue.

10. Which of the following are factors of production?

     A.   land, labour and organization.
     B.   labour, wages and technology.
     C.   land, labour and capital.
     D.   capital, wages and entrepreneurship.

11. When we measure real gross domestic product (GDP), the production of final goods and services is valued at

     A.   past year's prices.
     B.   constant prices.
     C.   current year's prices.
     D.   a ratio of current year's prices to past year's prices.

12. When the nominal interest rate is eight per cent and the rate of inflation is three per cent, the real interest rate is calculated as

     A.   11 per cent.
     B.   0.375 per cent.
     C.   five per cent.
     D.   2.67 per cent.

13. It is normal for a country to measure its standard of living by its

     A.   real gross domestic product (GDP).
     B.   real gross domestic product (GDP) per capita.
     C.   nominal gross domestic product (GDP).
     D.   nominal and real gross domestic product (GDP).

14. *Ceteris paribus*, bonds are likely to be issued with higher interest rates if they have

     A.   tax exemptions and short terms.
     B.   tax exemptions and long terms.
     C.   no tax exemptions and long terms.
     D.   no tax exemptions and reliefs on income and gains.

15. Stock represents

     A.   a claim on the company's assets and earnings.
     B.   ownership in a company.
     C.   equity finance.
     D.   all of the above.

16. The labour force equals the

    A. number of people who are employed.
    B. number of people who are to be employed.
    C. sum of employed and employable people.
    D. adult population.

17. Money market liquidity is defined as

    A. the degree to which an asset is converted to cash.
    B. a measurement of the intrinsic value of a commodity.
    C. the monetary value of an asset.
    D. the degree to which currency is circulated.

18. Suppose you deposit additional money as savings in a bank in Malaysia. The increase in the ringgit value of the deposit

    A. and the change in the number of goods you can buy with your deposit are both nominal variables.
    B. and the change in the number of goods you can buy with your deposit are both real variables.
    C. is a nominal variable but the change in the number goods you can buy with your deposit is a real variable.
    D. is a real variable but the change in the number of goods you buy with your deposit is a nominal variable.

19. Malaysia sells more to its trade partners than it buys from them. Hence,

    A. Malaysia has a positive capital account balance.
    B. Malaysia has a positive balance of payments.
    C. Malaysia shows positive net exports.
    D. Malaysia shows a services account surplus.

20. When there is a decrease in taxes, consumption is likely to

    A. increase; consequently, aggregate demand shifts right.
    B. increase; consequently, aggregate supply shifts right.
    C. decrease; consequently, aggregate demand shifts left.
    D. decrease; consequently, aggregate supply shifts left.

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

Question 1

Parts 1(a) to 1(e) refer to the figures given in the table below:

Price (RM)	Quantity demanded (bushels of wheat)	Price (RM)	Quantity supplied (bushels of wheat)
4.20	125,000	4.20	230,000
4.00	150,000	4.00	220,000
3.80	175,000	3.80	210,000
3.60	200,000	3.60	200,000
3.40	225,000	3.40	190,000
3.20	250,000	3.20	180,000
3.00	275,000	3.00	170,000

(a) **Plot both the demand and supply curves on one graph. Label the axes accordingly.**

(3 marks)

(b) **What is the market equilibrium price and quantity for wheat?**

(4 marks)

(c) **Indicate the market equilibrium price and quantity on the graph you drew in part (a), and label them P_e and Q_e respectively.**

(2 marks)

(d) **If the government decides to support the price of wheat at RM4.00 per bushel, would there be a surplus or shortage? How much would it be?**

(4 marks)

(e) **Show your answer to part (d) on your graph by labeling the quantity you designated as the shortage or surplus.**

(2 marks)

Parts 1(f) and 1(g) refer to the following table, which shows the demand schedules for Ace, Ben and Chris for a product:

Price (RM)	Quantity demanded			Total
	Ace	Ben	Chris	
15.00	1	4	0	_____
13.00	3	5	1	_____
11.00	6	6	5	_____
9.00	10	7	10	_____
7.00	15	8	16	_____

(f)   **If they are the only three buyers of the product, complete the market demand schedule for the product.**

(2.5 marks)

(g)   **Graphically, is the market demand for a product the horizontal or vertical sum of the individual demand schedules?**

(2.5 marks)

[Total: 20 marks]

Question 2

(a)   Assume that the short-run cost and demand data given in the table below confronts a monopolistic competitor selling a given product and engaged in a given amount of product promotion. **Compare the marginal cost and marginal revenue of each unit of output and fill in the table below.**

Output	Total cost	Marginal cost	Quantity demanded	Price	Marginal revenue	Profit
0	RM 50		0	RM60		RM___
1	80	RM___	1	55	RM___	___
2	120	___	2	50	___	___
3	150	___	3	45	___	___
4	170	___	4	40	___	___
5	185	___	5	35	___	___
6	205	___	6	30	___	___
7	235	___	7	25	___	___
8	275	___	8	20	___	___
9	325	___	9	15	___	___
10	385	___	10	10	___	___

(3 marks)

(b)   **At what output level and price will the firm produce and charge in the short run? Will there be a profit or loss? What will be the total profit or total loss? What is the criteria used to determine profit maximization or loss minimization?**

(7 marks)

(c)   **What will happen to demand, price and profit in the long run? How will the market adjust to achieve this?**

(10 marks)

[Total: 20 marks]

Question 3

(a) Complete the following table, where *L* is the units of labour, TP_L is the total product of labour, MP_L is the marginal product of labour, *P* is the product price, TR is total revenue, and MRP_L is the marginal revenue product of labour.

L	TP_L	MP_L	*P*	TR	MRP_L
0	0		RM2.00	RM___	
1	10	__	1.90	____	RM____
2	19	__	1.80	____	____
3	27	__	1.70	____	____
4	34	__	1.60	____	____
5	40	__	1.50	____	____
6	45	__	1.40	____	____
7	49	__	1.30	____	____
8	52	__	1.20	____	____
9	54	__	1.10	____	____
10	55	__	1.00	____	____

(3 marks)

(b) In what type of market is the firm selling its product?

(5 marks)

(c) What do you observe in the MRP_L schedule as labour increases? Why is that so?

(6 marks)

(d) Using the table below, how many workers should you employ, given the wage rate?

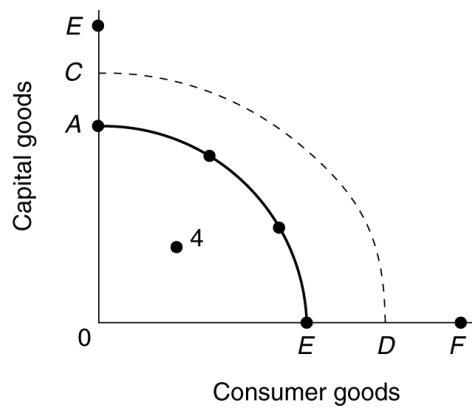| Wage rate (RM)	Quantity of workers employed
RM16	___
14	___
12	___
10	___
8	___
6	___

(6 marks)

[Total: 20 marks]

Question 4

(a) Suppose an economy has 9,000 workers, each working 2,000 hours per year. The average real output per hour is RM15. **What is the total output or real GDP? Show your full calculations.**

(5 marks)

(b) Suppose an economy's real GDP is RM125 billion in year-1 and RM130 billion in year-2. **What is the growth rate of its GDP?**

(5 marks)

Parts 4(c) and 4(d) refer to the diagram below, which depicts a production possibility curve or frontier:

(c) If the economy represented by the production possibility curve *AE* is producing at point 4, **what economic problem does this represent? How can we solve this economic problem?**

(5 marks)

(d) **Is it possible to move from production possibility curve *AE* to *CD*? What does it indicate? What factors may cause a shift from *AE* to *CD*?**

(5 marks)

[Total: 20 marks]

Question 5

(a) **What is the effect on the money supply when a commercial bank sells government securities to the public?**

(4 marks)

(b) **What is the required reserve ratio? What is the simple deposit multiplier? How are they related?**

(6 marks)

(c) Banks pursue two conflicting goals. **Explain what these goals are and why is there a conflict.**

(10 marks)

[Total: 20 marks]

Question 6

(a)   **Define four types of trade barriers.**

(6 marks)

(b)   **Explain who gains and who loses from a protective tariff.**

(6 marks)

(c)   **Explain the reason(s) why some countries feel that a new industry needs protection from foreign competition**.

(8 marks)

[Total: 20 marks]

(END OF QUESTION PAPER)