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

PROFESSIONAL EXAMINATIONS

INTERMEDIATE LEVEL

ECONOMICS

JUNE 2018

Student Reg. No.	
Desk No.	

Date	
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. The principal reason behind why households and societies deal with many decisions is that

    A. resources are scarce.
    B. goods and services are abundant.
    C. incomes vary with business cycles.
    D. people disagree on allocation of resources as they don't understand each other.

2. The proverb, "There is no such thing as a free lunch," in economics means that

    A. goods are scarce.
    B. people face trade-offs.
    C. resource allocation is conducted on a give-and-take principle.
    D. households face countless decisions.

3. George and Bill are two woodworkers who both produce apples and oranges. In a certain period, George can produce four apples or 20 oranges, while Bill can produce six apples or 18 oranges. Given this, we understand that

    A. George has an absolute advantage in oranges.
    B. George has a comparative advantage in apples.
    C. Bill has an absolute advantage in oranges.
    D. Bill has a comparative advantage in oranges.

4. The highest form of competition is known as

    A. absolute competition.
    B. monopolistic competition.
    C. perfect competition.
    D. market competition.

5. An increase in income results in

    A. an increase in the demand for a normal good.
    B. a decrease in the demand for normal good.
    C. a movement down and to the right along the demand curve for a Giffen good.
    D. a movement up and to the left along the demand curve for a Giffen good.

6. When a binding price ceiling is imposed in the mobile phone market,

    A. the quantity of mobile phones demanded would increase.
    B. the quantity of mobile phones supplied would decrease.
    C. a shortage of mobile phones would develop.
    D. all of the above are correct.

7. When the government imposes a tax on buyers,

    A. the demand curve shifts downward by the amount of the tax.
    B. the tax creates a wedge between the price buyers pay and the price sellers receive.
    C. the tax has no effect on producer surplus.
    D. all of the above are correct.

8. The "tragedy of the commons" occurs because

    (i)   social incentives differ from private incentives.
    (ii) common resources have non-excludability and non-rivalry in consumption characteristics.
    (iii) common resources have non-excludability and rivalry in consumption characteristics.

    A. (i) only.
    B. (ii) only.
    C. (i) and (ii) only.
    D. (i) and (iii) only.

9. The amount of money that a firm uses to purchase inputs is known as

    A. variable cost.
    B. marginal cost.
    C. fixed cost.
    D. total cost.

10. Capital in a computer software firm can be identified as

    (i)   the employees who develop the firm's computer programs.
    (ii) the salary the firm pays to its program developers.
    (iii) computer equipment.

    A. (i) only.
    B. (ii) only.
    C. (iii) only.
    D. (i) and (iii).

11. Economists conceptualise Malaysia's gross domestic product (GDP) as

    A. the monetary value of all goods and services produced within Malaysia's borders in a given period of time.
    B. the monetary value of all goods and services produced by Malaysians, irrespective of whether they are living in Malaysia or overseas, in a given period of time.
    C. the monetary value of all final goods and services produced in Malaysia in a given period of time.
    D. the monetary value of all final goods and services produced by Malaysians, irrespective of whether they are living in Malaysia or overseas, in a given period of time.

12. Suppose Malaysia's consumer price index is 100 in the base year and 108 in the following year, we calculate the inflation rate as

    A. 108 per cent.
    B. 10.8 per cent.
    C. 8 per cent.
    D. 1.08 per cent.

13. Suppose the Indonesian government hired you as an economist to report on how the material well-being of the average individual has changed over time in the country. Which of the following should you consider looking at?

    A. Growth rate of real GDP per capita.
    B. Level of real GDP.
    C. Growth rate of nominal GDP.
    D. Growth rate of real GDP.

14. Suppose that a country has a closed economy with the following information (in $ million):

    Gross domestic product (GDP) = 11,000
    Taxes = 2,500
    Consumption = 7,500
    Government spending = 2,000

    Given the information, private saving, public saving, and national saving are as follows:

    A.   1000, 500, 1500.
    B.   1500, 1000, 500.
    C.   500, 1500, 1000.
    D.   None of the above is correct.

15. Which of the following has intrinsic value?

    A.   Fiat money.
    B.   Commodity money.
    C.   Both commodity money and fiat money.
    D.   Neither commodity money nor fiat money.

16. When Malayan Banking Berhad loans out RM100,000, the money supply in Malaysia

    A.   increases.
    B.   does not change.
    C.   decreases.
    D.   can be any of the above.

17. Suppose Singapore has deflation. The deflation will

    A.   increase Singapore's ability to pay debts and raise the value of money.
    B.   increase Singapore's ability to pay debts and lower the value of money.
    C.   reduce Singapore's ability to pay debts and lower the value of money.
    D.   reduce Singapore's ability to pay debts and raise the value of money.

18. Singapore's net exports are the value of

    A.   value of goods and services imported minus the value of goods and services exported.
    B.   value of goods exported minus the value of goods imported.
    C.   value of goods and services exported minus the value of goods and services imported.
    D.   value of goods imported minus the value of goods exported.

19. Classical macroeconomic theory holds that changes in the money supply can impact

    A.   real GDP and the price level.
    B.   real GDP but not the price level.
    C.   neither the price level nor real GDP.
    D.   the price level but not real GDP.

20. Liquidity preference theory holds that an increase in money demand due to a change in non-price determinants such as expectations, preferences or transactions costs causes

    A.   the interest rate to fall so aggregate demand shifts right.
    B.   the interest rate to fall so aggregate demand shifts left.
    C.   the interest rate to rise so aggregate demand shifts left.
    D.   the interest rate to rise so aggregate demand shifts right.

SECTION B: Structured Questions (Total: 80 marks)

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

Question 1

(a) **Distinguish between a change in demand and a movement along a demand curve, noting the cause(s) of each.**

(13 marks)

(b) **The income elasticities of demand for movies and dental services have been estimated to be +3.4 and +1, respectively. Interpret these coefficients.**

(4 marks)

(c) **What does it mean if an income elasticity coefficient is negative?**

(3 marks)

[Total: 20 marks]

Question 2

Suppose there are two competitors – Sharpe Inc. and Shengho Co. Each face an important strategic decision concerning whether or not they should boost advertising on introducing new products. In the payoff matrix defined below, Sharpe can choose either row whereas Shengho can choose either column. Both Sharpe and Shengho have the choice to either "boost advertising" or "hold advertising constant." Notice that neither firm can unilaterally choose a given cell in the profit payoff matrix. This is a one-shot game, depending upon the choices made by both competitors. In this payoff matrix, the first number in each cell is the profit payoff to Sharpe; the second number is the profit payoff to Shengho.

Payoff Matrix for Sharpe and Shengho

		Shengho Co.	
Sharpe, Inc.	Competitive Strategy	Boost Advertising	Hold Advertising Constant
	Boost Advertising	$8 billion; $5 billion	$5 billion; $3 billion
	Hold Advertising Constant	$4 billion; $2 billion	$9 billion; $4 billion

(a) **Is there a dominant strategy for Sharpe? If so, what is it?**

(7.5 marks)

(b) **Is there a dominant strategy for Shengho? If so, what is it?**

(7.5 marks)

(c) **Define Nash equilibrium. Is there a Nash equilibrium in this situation? If so, identify the Nash equilibrium in this game.**

(5 marks)

[Total: 20 marks]

Question 3

(a)   What is the Consumer Price Index (CPI)?

(4 marks)

(b)   Explain how the rate of inflation is calculated from one year to the next. (Note: you must show the formula).

(6 marks)

(c)   What effect does inflation have on the purchasing power of a currency?

(5 marks)

(d)   Explain the difference between nominal and real interest rates. If the nominal interest rate is 10 per cent, and the inflation rate is 6 per cent, what is the real interest rate?

(5 marks)

[Total: 20 marks]

Question 4

A firm has fixed costs of $60 and variable costs as indicated in the table below.

(a)   Complete the table below.

    Note: All values in dollars except stated otherwise

Total product (units)	Total fixed cost	Total variable cost	Total cost	Average fixed cost (AFC)	Average variable cost (AVC)	Average total cost (ATC)	Marginal cost (MC)
0		0		-	-		-
1		45					
2		85					
3		120					
4		150					
5		185					
6		225					
7		270					
8		325					
9		390					
10		465					

(5 marks)

(b)   Draw the curves for AFC, AVC, ATC, and MC in a single diagram.

(5 marks)

(c)   Explain the derivation of AFC, AVC, ATC, and MC (you must show the formulae), and explain the shape of each of these four curves and their relationships with one another. Explain why the MC curve intersects both the AVC and the ATC curves at a certain point.

(10 marks)

[Total: 20 marks]

Question 5

(a)   What is economic growth and how is it measured?

(5 marks)

(b)   Why is economic growth important?

(5 marks)

(c)   Suppose real GDP in an economy is $30,000 in year-1 and $31,200 in year-2. What is the growth rate?

(4 marks)

(d)   Assume that population is 100 in year-1 and 102 in year-2. What is the growth rate of real GDP per capita?

(6 marks)

[Total: 20 marks]

Question 6

Jack can produce 15 pies or 1 croissant in one day. Sandy can produce 2 pies or 10 croissants in one day.

(a)   Draw the production possibility frontiers for Jack and Sandy (*with pies on the vertical axis and croissants on the horizontal axis*), assuming constant opportunity cost.

(5 marks)

(b)   Calculate the opportunity cost of producing pie and croissant. Determine who has the comparative advantage in producing each product. How many units of each product should be produced by Jack and Sandy respectively?

(15 marks)

[Total: 20 marks]

(END OF QUESTION PAPER)