



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

PROFESSIONAL EXAMINATION

INTERMEDIATE LEVEL

ECONOMICS

JUNE 2021

Student
Registration No.

Date

Desk No.

Examination Centre

Time allowed: 3 hours

INSTRUCTIONS TO CANDIDATES

1. You may answer this paper **EITHER** in English **OR** in 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. Each answer should begin on a separate answer template.
5. All workings **MUST** be shown as marks will be awarded.

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

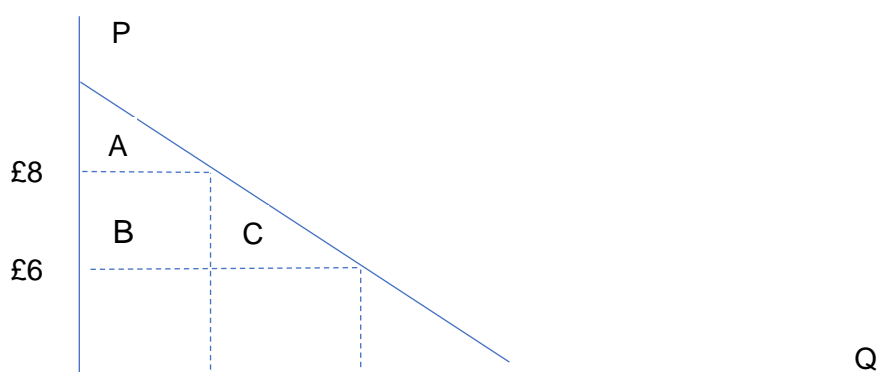
Answer all questions in the multiple choice answer sheet provided. Each question is worth one (1) mark.

1. The output produced by each person in 20 labour hours is given below for wine and cheese. Choose the option with the correct statement below.

	Wine	Cheese
Samuel	6	4
Roberto	2	3

- A. Samuel has an absolute advantage in both products and a comparative advantage in cheese.
- B. Roberto has an absolute advantage in both products and a comparative advantage in cheese.
- C. Roberto has an absolute advantage in Cheese and a comparative advantage in Wine, whilst the opposite is true for Samuel.
- D. Samuel has an absolute advantage in both products and a comparative advantage in wine.
2. Assume that fish is a normal good, that chicken and fish are substitutes, and soy sauce and fish are complements. Which of the following is a possible cause of an upward shift in the demand curve for fish?
- A. A decrease in income.
- B. A decrease in the price of chicken.
- C. A decrease in the price of soy sauce.
- D. A decrease in the price of fish.
3. Scarcity is a result of
- A. Unlimited demand but limited resources.
- B. Limited demand but unlimited resources.
- C. Limited demand and limited resources.
- D. Unlimited demand and unlimited resources.
4. Suppose that the price elasticity of supply for Covid-19 vaccines is generally low. This means that
- A. An increase in vaccine prices will lead to large increases in quantity supplied.
- B. An increase in vaccine prices will lead to only a small increase in quantity supplied.
- C. A decrease in vaccine prices will not lead to any changes in quantity supplied.
- D. A decrease in vaccine prices will lead to an infinitely large increase in quantity supplied.
5. Which of the following statements best summarises the law of diminishing marginal returns?
- A. In the short run, as more labour is hired, output diminishes.
- B. In the short run, as more labour is hired, output increases at a diminishing rate.
- C. In the short run, the amount of labour a firm will hire diminishes as output increases.
- D. As more labour is hired, the length of time that defines the short run diminishes.

6. The appropriate government intervention to reduce pollution from factories is to
- Close the factories.
 - Ignore the pollution.
 - Subsidise production activities.
 - Tax production activities.
7. One reason why private sector supply of national defence is not profitable is because
- Consumers will just free ride on national defence services.
 - Producers of national defence are incompetent.
 - Consumers do not like national defence.
 - National defence is too expensive to be supplied by the private sector.
8. When Average Cost is minimum,
- Average Cost exceeds Marginal Cost.
 - Average Cost is less than Marginal Cost.
 - Average Cost equals Marginal Cost.
 - Marginal Cost is zero.
9. In a perfectly competitive market
- Buyers and sellers are price takers.
 - The products sold are identical.
 - There is perfect information.
 - All of the above.
10. A monopolist maximises profits when:
- Average revenue equals average cost.
 - Average revenue equals marginal cost.
 - Marginal revenue equals average cost.
 - Marginal revenue equals marginal cost.
11. The diagram below is Anthony's demand curve for football matches.



When the price per match falls from £8 to £6, his consumer surplus

- Rises by area A.
- Rises by area B and C.
- Falls by area B and C.
- Falls by area C.

12. Assume that total output consists of 4 apples and 6 oranges, and that apples cost RM1 each and oranges cost RM0.50 each. In this case, the value of Gross Domestic Product is
- A. 10 pieces of fruit.
 - B. RM7.
 - C. RM8.
 - D. RM10.
13. If nominal Gross Domestic Product rises we can say that:
- A. Production has fallen and prices have risen.
 - B. Production has risen and prices remain constant.
 - C. Production has risen or prices have risen or both have risen.
 - D. Prices have risen and production remains constant.
14. Assuming that the economy is initially in full employment equilibrium. A recession occurs. The following types of unemployment are present:
- A. Frictional unemployment.
 - B. Structural unemployment.
 - C. Cyclical unemployment.
 - D. All of the above.
15. Intermediate goods are excluded from Gross Domestic Product (GDP) because:
- A. They represent goods that have never been purchased so they cannot be counted.
 - B. Their inclusion would understate GDP.
 - C. Their inclusion would involve double counting.
 - D. The premise of the question is incorrect because intermediate goods are directly included in calculating GDP.
16. To overcome cyclical unemployment caused by recession, the following are effective except:
- A. Expanding money supply.
 - B. Increasing minimum wage rate.
 - C. Reducing interest rate.
 - D. Expanding government spending.
17. To slow down economic activity and avoid overheating, the central bank could conduct open market operations by
- A. Selling short term securities.
 - B. Buying short term securities.
 - C. Neither buy nor sell securities.
 - D. All of the above.
18. Controlling demand-pull inflation requires the following policies except
- A. Increasing taxation.
 - B. Selling short term securities.
 - C. Reducing reserve requirement.
 - D. Increasing interest rates.

19. To stimulate long term economic growth, the following policies are relevant
- A. Increasing capital stock.
 - B. Increasing labour.
 - C. Increasing productivity.
 - D. All of the above.
20. To ensure that government debts are sustainably managed in future, the following are useful except
- A. Increasing economic growth.
 - B. Increasing welfare payments to unemployed workers.
 - C. Reducing interest rates.
 - D. Increasing investment in technologies.

SECTION B: Structured Questions (Total: 80 marks)

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

Question 1

Computer chips are one of the inputs used in computer production. Over the past 40 years, technological advances have reduced the cost of producing computer chips.

- (a) How does this affect the input price for producing a computer?** (2 marks)
- (b) Use a diagram to explain how this affects the market for computers.** (6 marks)
- (c) Use a diagram to explain how this affects the market for computer software.** (6 marks)
- (d) Use a diagram to explain how this affects the market for typewriters.** (6 marks)

[Total: 20 marks]

Question 2

- (a) What is an externality?** (4 marks)
- (b) What type of externality occurs when a producer overproduces a good? What will happen to the price level?** (6 marks)
- (c) Using a diagram, illustrate with an example how overproduction of aluminium may affect the third party.** (10 marks)

[Total: 20 marks]

Question 3

- (a) What are the four key characteristics of perfect competition market? (4 marks)
- (b) Melissa's Pizza Kitchen is a price taker. The following table shows costs at various output levels.

Output (Pizzas per hour)	Total cost (RM per hour)
0	10
1	21
2	30
3	41
4	54
5	69

- (i) What is the fixed cost? (1 mark)
- (ii) Please fill in the table below for fixed cost (FC), variable cost (VC) and average variable cost (AVC).

Output (pizzas per hour)	Total cost (RM per hour)	FC (RM per hour)	VC (RM per hour)	AVC (RM per hour)
0	10			
1	21			
2	30			
3	41			
4	54			
5	69			

- (3 marks)
- (iii) What is the general criteria to identify the shutdown point? (3 marks)
- (iv) What is Melissa's shutdown point? (2 marks)
- (v) What is Melissa's economic profit if she shuts down temporarily? (2 marks)
- (vi) "Melissa's supply curve is her marginal cost curve." Do you disagree with this statement? Explain. (5 marks)

[Total: 20 marks]

Question 4

Suppose the Malaysian government spends more than it receives in tax revenue. Answer the following questions:

- (a) How would this impact the government budget? (4 marks)
- (b) How would your answer in (a) above impact the country's national saving? (4 marks)
- (c) How would your answer in (b) above impact the supply of loanable funds? (4 marks)
- (d) Using a diagram, show how this may affect the equilibrium interest rate and the equilibrium quantity of loanable funds in the country. (8 marks)

[Total: 20 marks]

Question 5

For all relevant parts below, show your workings in full.

- (a) A bank has RM1,000 in deposits and maintains a 12 per cent reserve ratio. How much will its reserves be? (3 marks)
- (b) What is the change in the money supply when the central bank purchases RM700 worth of bonds and the required reserve ratio is 14 per cent, assuming banks hold no excess reserves? (3 marks)
- (c) 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? (4 marks)
- (d) In general, why might the actual amount of total money creation be less than the maximum? (5 marks)
- (e) What are the effects on the money supply when the central bank lowers the discount rate? (5 marks)

[Total: 20 marks]

Question 6

- (a) What is net capital outflow? (2 marks)
- (b) What happens to net capital outflow as the real interest rate falls? Explain your answer. (6 marks)
- (c) If the government budget deficit rises, what happens to the interest rate? What effect does this change in the interest rate have on net capital outflow? Provide a detailed explanation as to why this change in the interest rate impacts net capital outflow. Draw the necessary diagram(s) to support your explanation. (6 marks)
- (d) If the government budget deficit increases, which curve in the market for foreign currency exchange shifts and in which direction? Explain why an increase in the budget deficit shifts this curve. Draw the necessary diagram(s) to support your explanation. (6 marks)

[Total: 20 marks]

(END OF QUESTION PAPER)