



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

PROFESSIONAL EXAMINATION

INTERMEDIATE LEVEL

ECONOMICS

DECEMBER 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. If the price increases by 1% and quantity demanded falls by 2%, the price elasticity of demand is
 - A. -2.
 - B. 2.
 - C. 1/2.
 - D. -1/2.

2. Economic problems arise because of
 - A. Unlimited wants.
 - B. Scarcity of resources.
 - C. Growing population amidst decreasing resources.
 - D. All of the above.

3. The law of demand is a relationship between
 - A. Price and income of consumer.
 - B. Income and well-being of consumer.
 - C. Price of a product and the quantity demanded of the same product.
 - D. Price of a product and the quantity demanded of the product's substitute.

4. Fill in the blanks: "Taxes will _____ the consumer surplus while subsidies will _____ the consumer surplus."
 - A. increase, decrease.
 - B. decrease, increase.
 - C. decrease, decrease.
 - D. increase, increase.

5. Elasticity of supply is
 - A. The responsiveness of quantity supplied to changes in price.
 - B. The responsiveness of cost to changes in quantity supplied.
 - C. The responsiveness of demand to changes in income.
 - D. None of the above.

6. In the short run, when a firm experiencing decreasing returns to labour
 - A. Marginal product will decline.
 - B. Marginal cost will increase.
 - C. Total production will still increase but at a decreasing rate.
 - D. All of the above.

7. In the long run, a firm experiencing increasing returns to scale
 - A. Will experience a 5% increase in output when all inputs are increased by 5%.
 - B. Will experience a less than 5% increase in output when all inputs are increased by 5%.
 - C. Will experience a more than 5% increase in output when all inputs are increased by 5%.
 - D. Will experience a less than 5% increase in output when all inputs are increased by less than 5%.

8. In response to pollution from factories, the government could
 - A. Increase subsidies to encourage more production by factories.
 - B. Reduce taxation of production activities in factories.
 - C. Increase taxation of production activities in factories.
 - D. Reduce subsidies to discourage production by factories.

9. A profit-oriented firm may not be able to supply public goods profitably because of
 - A. Free rider problem.
 - B. Resource misallocation.
 - C. Lack of interest in producing public goods.
 - D. All of the above.

10. An individual firm will respond to a fall in wage rates by
 - A. Reducing employment of labour.
 - B. Increasing employment of labour.
 - C. Leave employment of labour unchanged.
 - D. None of the above.

11. Suppose there are only two types of producers in a country, namely the wood producer and furniture maker. The wood producer sells RM100 worth of wood products to a furniture maker. The furniture maker then produces RM180 worth of furniture products for the final consumer. The total income produced by the economy is
 - A. RM100.
 - B. RM280.
 - C. More than RM280 due to the need to consider double counting.
 - D. Less than RM280 due to the need to consider double counting.

12. Assume that total output in 2019 consists of 10 apples and 5 oranges and that apples cost RM1 each and oranges cost RM2 each. In 2020, total output now consists of 15 apples and 10 oranges, and that price of apples has increased to RM2, while price of oranges cost RM3 each. In this case, the real gross domestic product (GDP) in 2019 prices is
 - A. RM60.
 - B. RM35.
 - C. RM20.
 - D. RM50.

13. If nominal gross domestic product (GDP) increases and the GDP deflator is unchanged, we can say that:
 - A. Production has increased.
 - B. Production has decreased.
 - C. There is price inflation.
 - D. None of the above.

14. To counter the effects of a recession, the central bank can do the following except
 - A. Buying securities from the private sector.
 - B. Reducing statutory reserve requirements.
 - C. Selling bonds to the public.
 - D. Reduce interest rates in the discount window.

15. Assuming that the economy is initially in full employment equilibrium. The Covid-19 pandemic hits the economy leading to business closures on a large scale. Which of the following type of unemployment is present?
 - A. Frictional unemployment.
 - B. Structural unemployment.
 - C. Cyclical unemployment.
 - D. All of the above.

16. Which of the following is a policy to reduce inflation?
 - A. Increase government spending.
 - B. Increase income taxes.
 - C. Reducing interest rate.
 - D. Reduce taxation on wealth.

17. Suppose there are two countries (M and W) and two goods (shoes and hats). The following table provides the labour hours needed to produce a unit of each output in both countries.

	Country M	Country W
Shoes	10 hours	12 hours
Hats	2 hours	5 hours

Choose the correct statement:

- A. Country W has comparative advantage in shoes and Country M has comparative advantage in hats.
 - B. Country W has comparative advantage in both shoes and hats.
 - C. Country W has absolute advantage in both shoes and hats.
 - D. All of the above.
18. Which of the following items is not part of the current account in the balance of payments?
- A. Malaysia's imports from China.
 - B. Malaysia's exports to Indonesia.
 - C. Intel setting up more factories in Malaysia.
 - D. Foreign workers sending back income to their home countries.
19. In an economy with a fixed exchange rate regime, a persistent trade account deficit can lead to
- A. Decreasing central bank reserves.
 - B. Excess demand for foreign currencies.
 - C. Central bank raising interest rates.
 - D. All of the above.
20. The following are policies that can increase long-run economic growth except
- A. Increasing investment in education.
 - B. Open market operations.
 - C. Encouraging acquisition of new technologies and skills.
 - D. Allocating more funds for R&D in universities.

SECTION B: Structured Questions (Total: 80 marks)

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

Question 1

- (a) **How do you interpret the coefficient of the price elasticity of demand (E_d)? Explain when E_d is 1.5, 0.7, and 1.0.** (4.5 marks)
- (b) The owner of a spa asks you for advice about whether the company should raise or lower the price of its membership this year based on the following information: last year the spa raised the price of its membership by 5 per cent and the number of members fell by 7 per cent.
- (i) **Calculate the price elasticity of demand (PED).** (3 marks)
- (ii) **Based on the answer from (i) above, is the PED elastic or inelastic?** (2 marks)
- (iii) **What is your advice to the company owner? Explain in detail.** (5 marks)
- (c) Use the midpoint formula to calculate the coefficient for the cross elasticity of demand and identify the type of relationship between the two products.
- (i) **Calculate the coefficient for the cross elasticity of demand if the quantity demanded for product A remains 400 units as the price of product B increases from RM25 to RM30.** (4 marks)
- (ii) **What is the relationship of these two products?** (1.5 marks)

[Total: 20 marks]

Question 2

- (a) **Compare and contrast the difference in private and public goods based on the characteristics of “rivalry” and “exclusion.”** (6 marks)
- (b) **What is the free-rider problem and how does it cause the underproduction of a public good in a competitive market?** (7 marks)
- (c) **“Clean air and water have become increasingly scarce and valuable resources because they have been treated in the past as if they were free and unlimited in supply.” What methods might be used to internalize spillover costs?** (7 marks)

[Total: 20 marks]

Question 3

- (a) What are the four (4) characteristics of oligopoly? (4 marks)
- (b) Two companies, ABC and XYZ, each decides whether to produce a high level of output or a low level of output. In the figure, the dollar amounts are payoffs and they represent annual profits for the two companies.

		ABC's Decision	
		High output	Low output
XYZ's Decision	High output	ABC's profit = \$3 million XYZ's profit = \$3 million	ABC's profit = \$2.5 million XYZ's profit = \$4 million
	Low output	ABC's profit = \$4 million XYZ's profit = \$2.5 million	ABC's profit = \$3.5 million XYZ's profit = \$3.5 million

- (i) What is dominant strategy? (2 marks)
- (ii) What is the dominant strategy for ABC? Justify your answer. (3 marks)
- (iii) What is the dominant strategy for XYZ? Justify your answer. (3 marks)
- (iv) If this game is played only once, what is the most likely outcome? (3 marks)
- (v) How would your outcome to part (iv) be different if the game is repeated? (3 marks)
- (vi) Is it socially desirable for the oligopolists to cooperate? (2 marks)

[Total: 20 marks]

Question 4

- (a) What is “demand-pull” inflation? (3 marks)
- (b) Describe cost-push inflation and its major source (4 marks)
- (c) Explain the difference between nominal and real interest rates. (4 marks)
- (d) Why are there mixed effects from unexpected inflation for most individuals? (9 marks)

[Total: 20 marks]

Question 5

Draw a short-run aggregate supply curve together with the aggregate demand curve for each case below. You should show four (4) separate diagrams in total. The vertical axis (Y axis) is price while the horizontal axis (X axis) is real GDP (billions of dollars). You should have a short analysis of the movement of the curve(s) and any change in equilibrium for each case.

- (a) A new technology enhances productivity of workers. (5 marks)
- (b) A recession reduces consumer wealth. (5 marks)
- (c) The US dollar, which is the home currency, depreciates against the ringgit. (5 marks)
- (d) The regulations associated with Standard Operating Procedures (SOPs) in the measures to contain the covid-19 outbreak are enforced. (Assume demand is unaffected by the measures). (5 marks)

(5 marks)

[Total: 20 marks]

Question 6

The data in the first two columns of the table below are for a private (excludes public sector) closed economy. Use the table to answer the following questions.

Real GDP (billions)	Aggregate expenditures (billions) [For closed economy]	Exports (billions)	Imports (billions)	Net exports (billions)	Aggregate expenditures (billions) [For open economy]
\$100	\$120	\$10	\$15	\$_____	\$_____
125	140	10	15	_____	_____
150	160	10	15	_____	_____
175	180	10	15	_____	_____
200	200	10	15	_____	_____
225	220	10	15	_____	_____
250	240	10	15	_____	_____
275	260	10	15	_____	_____

- (a) What is the equilibrium gross domestic product (GDP) for the private closed economy? (2 marks)
- (b) Including the international trade figures for exports and imports, fill in the table above by calculating net exports. Then, determine the equilibrium GDP for a private open economy. (3 marks)
- (c) What will happen to equilibrium GDP if exports were \$5 billion larger at each level of GDP? (5 marks)
- (d) What will happen to equilibrium GDP if exports remained at \$10 billion, but imports dropped to \$5 billion? (5 marks)
- (e) Refer to the answers for (c) and (d) above, what is the size of the multiplier in this economy? (5 marks)

[Total: 20 marks]

(END OF QUESTION PAPER)