



CHARTERED TAX INSTITUTE OF MALAYSIA

CHARTERED TAX INSTITUTE OF MALAYSIA (225750 T)
(Institut Percukaian Malaysia)
Registration Number: 199101015438 (225750-T)

PROFESSIONAL EXAMINATION

INTERMEDIATE LEVEL

ECONOMICS

JUNE 2022

Student
Registration No.

Date

Desk No.

Examination Centre

Time allowed: 3 hours

INSTRUCTIONS TO CANDIDATES

1. This paper consists of **TWO** sections. **SECTION A** contains **TWENTY** multiple choice questions and **SECTION B** contains **SIX** questions.
2. Answer **ALL** questions in **SECTION A** and choose any **FOUR** questions out of **SIX** from **SECTION B**.
3. Each answer should begin on a separate answer template.
4. 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.

- The law of demand states that
 - the higher the price of a good, the lower is the quantity demanded.
 - the higher the price of a good, the higher is the quantity demanded.
 - the lower the price of a good, the lower is the quantity demanded.
 - None of the above.
- A discovery of new technology that makes it cheaper to produce computers will lead to
 - a fall in supply of computers.
 - a rise in supply of computers.
 - no changes in supply of computers.
 - None of the above.
- Economic scarcity arises from
 - limited resources and limitless wants.
 - just limited resources.
 - inefficient production.
 - limited wants and limitless resources.
- Opportunity cost is best defined as
 - how much money is paid for something, taking inflation into account.
 - how much money is paid for something.
 - all the alternatives that are given up to get something.
 - the highest-valued alternative that is given up to get something.
- The price of a Dell laptop in a computer store is presently RM3,000. Each month the store is able to sell 100 units of laptops. If the price elasticity of demand is -2, what will happen to the quantity of laptops sold if the store reduced price to RM1,500?
 - Quantity of laptops will increase 100%.
 - Quantity of laptops will decrease 100%.
 - Quantity of laptops may not change.
 - None of the above.
- A price elasticity of demand that is greater than one indicates that
 - demand is relatively inelastic.
 - demand is small.
 - demand is large.
 - demand is relatively elastic.
- Elasticity of supply measures
 - the responsiveness of quantity supplied to changes in price.
 - the responsiveness of price to changes in quantity supplied.
 - the responsiveness of quantity supplied to changes in income.
 - the responsiveness of quantity supplied to changes in technology.
- A monopoly is defined as a single firm that
 - sets the price it charges for its output and earns indefinite profits.
 - is a price taker and, thereby, earns small but positive profits.
 - sets the price it charges for its output but faces a downward-sloping demand curve so it cannot earn unlimited profits.
 - sets the price it charges for its output but has a perfectly elastic demand curve so it can earn unlimited profits.

9. In a perfectly competitive market with identical goods, if buyers and sellers have perfect information,
- A. a seller could still set prices higher than its rivals.
 - B. price is set by a bargaining process between buyer and seller.
 - C. price is set unilaterally by the seller.
 - D. a seller could not set prices higher than its rivals because the seller will be punished by buyers who will opt for cheaper alternatives.
10. In an oligopolistic market,
- A. there are few sellers.
 - B. actions by a seller will produce a response from its rivals.
 - C. profits are maximized.
 - D. All of the above.
11. The following are components of gross domestic product (GDP) except
- A. consumption.
 - B. saving.
 - C. private investment.
 - D. government purchases.
12. In a certain economy, the value of goods and services that it sells to trade partners exceed the value of goods and services that it purchases from its trade partners. Which of the following is not true of this economy?
- A. Saving exceeds investment.
 - B. Net capital outflows are positive.
 - C. National income less consumption and government purchases are less than investment.
 - D. On a net basis, it is providing loanable funds to foreign firms.
13. The war in Ukraine will likely cause global oil prices to increase, leading to higher inflation. The following are possible responses by the government and central bank to stem inflationary threats, except
- A. increase statutory reserve requirements.
 - B. reduce taxation and approve bigger budgets for highway construction.
 - C. switching to alternative renewable energy sources that are less expensive.
 - D. selling more domestic securities to the public.
14. One impact of the Covid-19 pandemic is a higher unemployment rate. The main source of unemployment is likely to be temporary and
- A. structural.
 - B. frictional.
 - C. cyclical.
 - D. None of the above.
15. Newly graduated university students who are currently in search of jobs can be classified as
- A. structural unemployment.
 - B. cyclical unemployment.
 - C. temporary unemployment.
 - D. frictional unemployment.
16. The following are monetary policy except
- A. cuts in taxation.
 - B. reduction in interest rate.
 - C. increase in money supply.
 - D. open market operation.

17. The following are examples of contractionary fiscal policy except
- A. increased levels of highway construction.
 - B. increases in income tax.
 - C. increases in sales tax.
 - D. cut-back in spending on building of hospitals and schools.
18. During periods of recession, a central bank would normally choose to
- A. reduce interest rates.
 - B. reduce discount rates.
 - C. increase money supply.
 - D. All of the above.
19. The following statements about trade are true except
- A. countries do not have to be different in order to trade.
 - B. countries can be trading in different types of goods.
 - C. countries can only trade if they are different from their trade partners.
 - D. countries can be trading in similar types of goods.
20. Global oil price increases have caused leftward shifts in the aggregate supply curve of Malaysia, causing a fall in production, and contributing to rising price levels. Here are some possible ways of reversing this situation except
- A. finding new technologies to increase productivity.
 - B. reducing cost of production.
 - C. finding cheaper, alternative inputs for production.
 - D. cutting interest rates.

SECTION B: Structured Questions (Total: 80 marks)

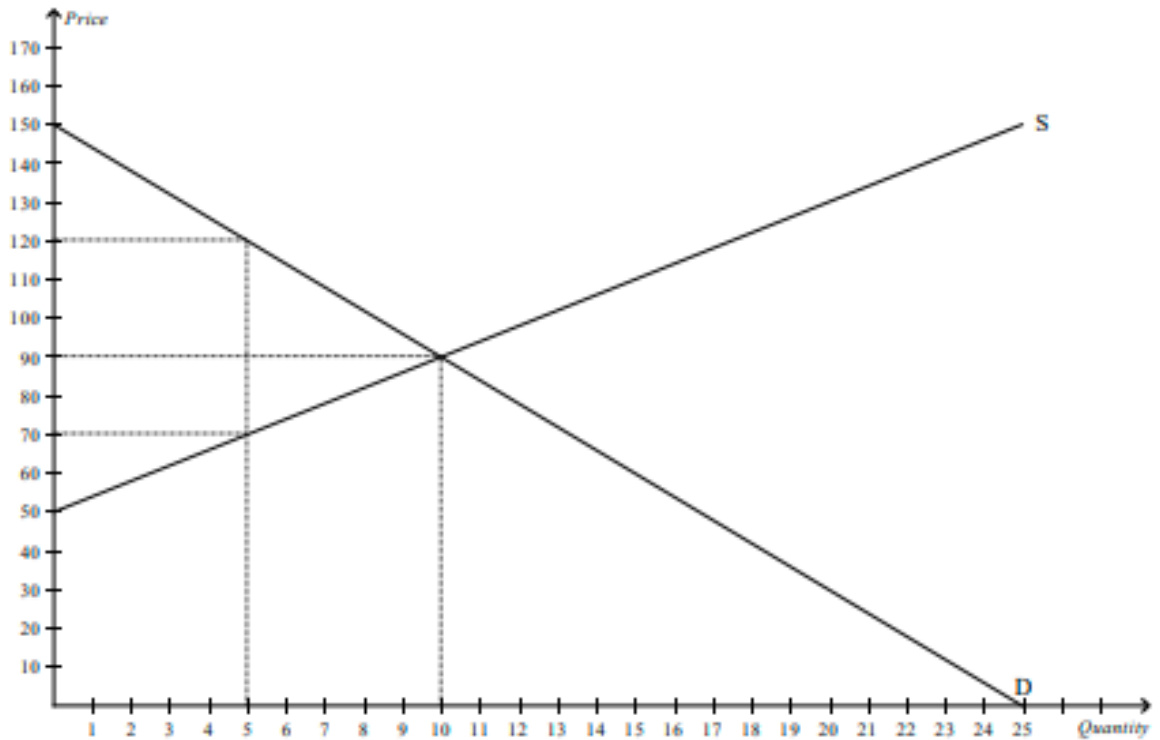
Answer any **FOUR** questions out of **SIX** in this section.

Question 1

- (a) **Graph each of the following changes and explain what will happen to equilibrium price and quantity. State whether it will increase, decrease or the effect is ambiguous.**
- (i) **Demand increases and supply increases.**
 - (ii) **Demand increases and supply decreases.**
 - (iii) **Demand decreases and supply decreases.**
 - (iv) **Demand decreases and supply increases.**

(16 marks)

(b) Refer to the diagram below and answer the following questions. Show all calculations.



- (i) At the equilibrium price, the value of producer surplus is RM_____.
- (ii) If the government imposes a price ceiling of RM70 in this market, then the new producer surplus will be RM_____.

(4 marks)

[Total: 20 marks]

Question 2

- (a) Explain what divergences arise between equilibrium output and efficient output when there are: (i) negative externalities, and (ii) positive externalities.
- (b) How may the government correct these divergences? Provide an example of an external cost and an external benefit.

(10 marks)

(10 marks)

[Total: 20 marks]

Question 3

- (a) The table below shows relevant information for the company Clean Spark, which is a two-step cleaning business in a medium-size metropolitan area. Complete the following table. Explain what is the output, price, and profit for this service if a monopolistically competitive equilibrium evolves in this market following the entry of competitors.

| Output | Price (\$) | Total Revenue | Marginal Revenue | Total Cost (\$) | Marginal Cost (\$) |
|--------|------------|---------------|------------------|-----------------|--------------------|
| 0 | 30 | | | 0 | |
| 1,000 | 28 | | | 26,000 | |
| 2,000 | 26 | | | 48,000 | |
| 3,000 | 24 | | | 68,000 | |
| 4,000 | 22 | | | 88,000 | |
| 5,000 | 20 | | | 100,000 | |

(8 marks)

- (b) A monopolistically competitive firm will always earn normal profit in the long run but not always so in the short run. Draw three diagrams that show supernormal (positive) profit, normal profit and loss in the short run. For each diagram, show the equilibrium price and quantity. Provide a brief explanation as to how the long-run equilibrium is achieved.

(12 marks)

[Total: 20 marks]

Question 4

- (a) List all the components of Gross Domestic Product (GDP).

(4 marks)

- (b) Which of the following transactions would be included in GDP? Explain your answer.

- (i) Kelly buys a new sweater to wear this winter.
- (ii) Robert gives his daughter RM50 for her birthday.
- (iii) Katherine sells RM1,000 of stock XYZ.
- (iv) Karen buys a new car.
- (v) Aaron buys a used car.
- (vi) Revenue generated by marijuana sales.

(6 marks)

- (c) What is the Consumer Price Index (CPI)? What effect does inflation have on the purchasing power of a dollar? How does it explain differences between nominal and real interest rates?

(10 marks)

[Total: 20 marks]

Question 5

- (a) Suppose that a country follows a floating exchange rate policy, and it has a massive current account deficit. Does it also necessarily have a balance of payments deficit? (6 marks)
- (b) If the central bank decides to engage in currency intervention to reduce the size of the current account deficit, will it buy or sell its own currency? (7 marks)
- (c) Assuming a system of flexible exchange rates between Mexico and the United States, indicate whether each of the following would cause the Mexican peso to appreciate or depreciate, *ceteris paribus*.
- (i) The United States reduces import tariffs on Mexican products.
 - (ii) Mexico encounters severe inflation.
 - (iii) Deteriorating political relations reduce American tourism in Mexico.
 - (iv) The economy in the United States moves into a severe recession.
 - (v) The United States engages in a high-interest-rate monetary policy.
 - (vi) Mexican products become more fashionable to consumers in the United States.
 - (vii) The Mexican government encourages American firms to invest in Mexican oil fields.

(7 marks)

[Total: 20 marks]

Question 6

- (a) What is the basic objective of monetary policy? (4 marks)
- (b) How is the equilibrium interest rate in the money market determined? (4 marks)
- (c) Use a graph to show the impact of an increase in the demand for money on the equilibrium interest rate (assuming no change in money supply). (6 marks)
- (d) Explain how built-in (or automatic) stabilizers work. (6 marks)

[Total: 20 marks]

(END OF QUESTION PAPER)