



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

PROFESSIONAL EXAMINATION

INTERMEDIATE LEVEL

ECONOMICS

DECEMBER 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.

- Which of the following below does not capture the fundamental economic problem?
 - Scarcity of goods.
 - Unlimited wants.
 - Limitations in resources.
 - Unlimited needs.
- Which of the following represents a positive statement?
 - Abortion should be made illegal.
 - Inflation is currently at two per cent per year.
 - All industries should be privatized.
 - All industries ought to be nationalized.
- Suppose that tickets to watch movies at Golden Screen Cinemas is a normal good. A recovery in personal income will lead to
 - an increase in demand for movie tickets.
 - a fall in demand for movie tickets.
 - unchanged demand for movie tickets.
 - a fall in ticket prices.
- The war in Ukraine will likely
 - increase supply for oil and raise global oil prices.
 - reduce supply for oil and reduce global oil prices.
 - increase demand for oil and reduce global oil prices.
 - reduce oil supply and increase global oil prices.
- The price of a new iPhone in a store is presently RM2,000. Each month the store is able to sell 500 iPhones. If the price elasticity of demand is -0.5, what will happen to the quantity of iPhones sold if the store increase price to RM2,500?
 - Quantity of iPhones will fall by 12.5%.
 - Quantity of iPhones will fall by 100%.
 - Quantity of iPhones may not change.
 - Quantity of iPhones will increase.
- There is a positive cross price elasticity of demand for iPhones in response to prices of Huawei phones. This indicates that Huawei and iPhones are
 - normal goods.
 - unrelated products.
 - gross complements.
 - gross substitutes.
- The problem with free markets is that markets do not capture externalities. In the case of negative externalities, private producers tend to
 - overproduce a good, optimal production is actually lower than existing production.
 - overproduce a good, optimal production is actually higher than existing production.
 - underproduce a good, optimal production is actually higher than existing production.
 - underproduce a good, optimal production is actually lower than existing production.
- Public goods are different from private goods because public goods
 - will not satisfy individual needs.
 - create benefits which are consumed only by the government.
 - create benefits that are not exclusive to a particular individual.
 - are more costly because they are produced by the government.

9. A public utilities company has been granted the sole rights to operate in a country. The following statements about it are true except
- A. there are high barriers of entry in this industry.
 - B. the public utilities company is likely to be highly profitable.
 - C. consumers of public utility services do not have any other alternatives.
 - D. the public utilities company needs to keep an eye on competitors.
10. In a market with only two firms, the following are true except
- A. there is likely to be competition.
 - B. the two firms could collude or cooperate.
 - C. each firm has to be concerned with strategic behaviour (before making a decision, it needs to consider the reaction of its rival).
 - D. each firm has total control over price-setting decision.
11. An increase in nominal GDP captures
- A. changes in the general price level only.
 - B. changes in the general price level and production level.
 - C. changes in the production level only.
 - D. a fall in price and quantity.
12. Economists in the central bank calculated that the domestic currency is undervalued by as much as five per cent. There is pressure for the domestic currency to appreciate. To prevent an appreciation, the central bank can
- A. increase and later reduce interest rates.
 - B. increase interest rates.
 - C. increase purchases of domestic assets.
 - D. increase purchases of foreign assets.
13. The post-pandemic global recession has been widely reported in the media. To overcome this problem, governments can
- A. increase the statutory reserve requirement through the central bank.
 - B. reduce taxation and approve bigger budgets for highway construction.
 - C. switch to alternative renewable energy sources that are less expensive.
 - D. sell more domestic securities to the public.
14. The Malaysian economy is growing to become more services-oriented, with a declining share of the manufacturing sector in GDP. Which type of unemployment is likely to emerge with such structural changes in the economy?
- A. Classical.
 - B. Cyclical.
 - C. Structural.
 - D. Temporary.
15. Plans to introduce unemployment benefits to cushion the effects of recession will likely
- A. have no effect on unemployment.
 - B. reduce unemployment.
 - C. increase unemployment.
 - D. deepen the recession.
16. The following are expansionary fiscal policy except
- A. cutting taxes.
 - B. reduction in money supply.
 - C. increasing government spending.
 - D. building more roads.

17. The following are policies to increase long-run economic growth except
- A. increased investment in R&D.
 - B. reduction in education investment.
 - C. increased investment in skills development.
 - D. maintaining price stability.
18. To combat rising inflation and unemployment (stagflation), which of the following is the appropriate policy option?
- A. Monetize more debt.
 - B. Reduce interest rates.
 - C. Increase interest rates.
 - D. Increase investments to boost productivity, reduce supply chain bottlenecks and keep interest rates stable.
19. In a country practicing a fixed exchange rate policy, when both current and financial accounts are in deficit,
- A. balance of payments will be balanced through an increase in foreign exchange reserves, and there will be a rise in the supply of domestic currency.
 - B. balance of payments will be balanced through a reduction in foreign exchange reserves, and there will be a fall in the supply of domestic currency.
 - C. balance of payments will be balanced through a reduction in foreign exchange reserves, and there will be a rise in the supply of domestic currency.
 - D. balance of payments will be balanced through an increase in foreign exchange reserves, and there will be a fall in the supply of domestic currency.
20. A rise in global food prices caused a leftward shift in the aggregate supply of Malaysia, resulting in a fall in output and rising price level. The central bank can
- A. increase aggregate demand by expansionary monetary policy to maintain output, but this will lead to further increase in the price level.
 - B. reduce aggregate demand by contractionary monetary policy to maintain output, but this will lead to further increase in the price level.
 - C. increase aggregate demand by expansionary monetary policy to maintain output, but this will lead to a decline in the price level.
 - D. reduce aggregate demand by contractionary monetary policy to reduce output and maintain prices at the same level.

SECTION B: Structured Questions (Total: 80 marks)

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

Question 1

- (a) A university in Malaysia raises its annual tuition fees from RM3,000 to RM3,500. Its student enrolment falls from 4,500 to 4,400. Compute the price elasticity of demand using the midpoint formula. Is demand elastic or inelastic?
(5 marks)
- (b) Explain the following: inelastic demand; elastic demand; and unit elastic. How can a seller determine whether the demand for his good is inelastic, elastic, or unit elastic between two prices? Use suitable diagrams to illustrate your answer.
(9 marks)
- (c) Would the price elasticity of demand for electricity be more elastic over a shorter or longer period of time? Provide a brief explanation.
(3 marks)
- (d) For which of the two goods would you expect the demand to be more price elastic: food in general, or breakfast cereal? Why?
(3 marks)

[Total: 20 marks]

Question 2

- (a) How and why does a firm's average total cost curve differ in the short run compared with the long run?
(6 marks)
- (b) Define the term "diseconomies of scale".
(3 marks)
- (c) State the factors that influence the rise of the long-run average total cost curve.
(4 marks)
- (d) You are thinking about setting up a coffee van stand. The van itself costs RM200. The ingredients for each pack of coffee cost RM0.50.
- (i) What is your fixed cost of doing business? What is your variable cost per pack of coffee?
(4 marks)

- (ii) Fill in the table showing your total cost, average total cost, and marginal cost for output levels varying from zero to 10 packs of coffee. (3 marks)

Quantity (packs of coffee)	Total cost	Average total cost	Marginal cost
0			
1			
2			
3			
4			
5			
6			
7			
8			
9			
10			

[Total: 20 marks]

Question 3

- (a) Explain how a profit-maximizing monopolist chooses its level of output and the price of its good. Use a diagram to illustrate your answer. (5 marks)
- (b) Using a diagram(s), depict the deadweight loss caused by a monopoly. Explain how this is similar to the deadweight loss from taxation. (10 marks)
- (c) What is the deadweight loss due to profit-maximizing monopoly pricing under the following conditions? The price charged for goods produced is RM4. The intersection of the marginal revenue and marginal cost curves occurs where output is 50 units and marginal revenue is RM2. The socially efficient level of production is 100 units. The demand curve is linear and downward sloping, and the marginal cost curve is constant. Show your calculation. Use a diagram. (5 marks)

[Total: 20 marks]

Question 4

- (a) Explain what is the loanable funds market. (4 marks)
- (b) Explain how equilibrium is determined in the loanable funds market. Use a diagram. (4 marks)
- (c) Identify the determinants of changes in the demand for loanable funds. (4 marks)
- (d) Describe the factors that can change the supply of loanable funds. (4 marks)
- (e) If the expected profit increases, what will happen to the equilibrium real interest rate and the equilibrium quantity of loanable funds? Use a diagram. (4 marks)

[Total: 20 marks]

Question 5

- (a) What is “open market operations”? (5 marks)
- (b) Under what circumstances should the central bank buy or sell securities in an open market operation? (7 marks)
- (c) How does your answer in (b) above impact the money supply, interest rate, and aggregate demand? (6 marks)
- (d) Based on your answer in (c) above, if a country is experiencing a recessionary gap phase with unemployment, should the country’s central bank buy or sell government bonds? Explain. (2 marks)

[Total: 20 marks]

Question 6

- (a) Using a diagram, explain the Phillips curve with regards to the short-run relationship between inflation and the unemployment rate. (5 marks)
- (b) In the long run, especially at a time of stagflation, does the Philips curve hold? (5 marks)
- (c) Explain how a depreciation of the dollar (domestic currency) changes the short-run equilibrium between real GDP and the price level. Draw a diagram to illustrate. (10 marks)

[Total: 20 marks]

(END OF QUESTION PAPER)