



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

PROFESSIONAL EXAMINATION

INTERMEDIATE LEVEL

ECONOMICS

DECEMBER 2023

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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.

- Some politicians have remarked that 'raising wages was a good idea'. This statement is an example of a
  - positive statement.
  - normative statement.
  - clear statement.
  - negative statement.
- The recovery of the economy after the Covid-19 pandemic has helped demand for housing to recover. At the same time, the housing developers are also planning to build more houses. We can predict that
  - demand and supply for housing will increase, there will be more houses transacted but the price may not increase.
  - demand for housing will increase, but supply of housing will fall, and price will increase.
  - demand and supply for housing will not change.
  - demand for housing will increase, housing supply will increase, and price will definitely increase.
- There are 10 persons living along a street. Each person is willing to pay RM10 to have the street lights repaired. The total cost of repair is RM50. If a private firm is hired to repair the street lights, which of the following statement is true?
  - The total revenue gained by the firm is RM100 while total cost is RM50, so the firm makes the repairs successfully and earns a profit.
  - The total revenue gained by the firm is RM100 while total cost is RM50, but the profits are too small so the firm will not take the job.
  - It is inefficient for the street lights to be fixed.
  - The total revenue gained by the firm is likely to be below RM100 because some persons will be willing to pay for the repairs but others will just free ride.
- A market analyst calculates that the price elasticity of demand for milk in Malaysia is -1.2. This implies that
  - a price increase by milk sellers will increase total revenue.
  - a price increase by milk sellers will not change total revenue.
  - a price increase by milk sellers will reduce total revenue.
  - a price decrease will lead to a fall in production cost.
- Due to a sudden surge in demand for unskilled workers, the market equilibrium wage rate has increased to RM2,000. In Malaysia, where the minimum wage rate is RM1,500, the increase in the market wage rate suggests that
  - the current minimum wage is no longer effective, and should be increased to RM1,800.
  - the current minimum wage is no longer effective, and should be reduced below RM1,500.
  - the current minimum wage is still effective.
  - the current minimum wage is no longer effective, and should be increased to above RM2,000.
- The government decides to impose a specific tax on e-cigarettes to deter vaping. Since vaping is widely practiced, the demand for e-cigarettes is relatively price inelastic. Which of the following statements is true about the effects of the tax?
  - Producers bear a bigger tax burden than consumers.
  - Producers do not bear any tax burden.
  - Consumers bear a bigger tax burden than producers.
  - Both consumers and producers bear equal tax burdens

7. The main difference between public and private goods is that
  - A. public goods provide benefits which are not exclusive to any particular individual.
  - B. public goods do not make individuals happy.
  - C. public goods are more costly to produce.
  - D. public goods benefit only some individuals.
  
8. An entrepreneur has been experiencing losses in the past four weeks. His monthly revenue is RM5,000. The fixed costs equal RM4,000 while average variable costs are RM3,000. Based on the given information, the entrepreneur should
  - A. continue business since the total revenue can cover all the variable costs.
  - B. continue business since the losses appeared for only four weeks.
  - C. shut down business since losses are incurred.
  - D. shut down business since total revenue cannot cover total cost.
  
9. A competitive labour market experiences a fall in the equilibrium wage rate. In response, it would be optimal for a profit maximising firm to
  - A. reduce hiring labour.
  - B. increase hiring of labour since marginal revenue product is now above the wage rate.
  - C. leave hiring of labour unchanged.
  - D. increase hiring of labour since it is now cheaper to do so.
  
10. As a firm in a perfectly competitive environment, the following action will be harmful to the individual firm:
  - A. To continue production when revenue can cover variable cost but not total cost.
  - B. To increase production when average revenue exceeds marginal cost.
  - C. To increase production when marginal revenue exceeds marginal cost.
  - D. To increase the individual firm price above the market equilibrium price.
  
11. The GDP deflator decreased by 5% and nominal GDP decreased by 4%. Therefore, real GDP approximately
  - A. remained unchanged.
  - B. increased by 1%.
  - C. increased by 5%.
  - D. decreased by 5%.
  
12. In the previous year, nominal GDP increased by 3% and real GDP decreased by 1%. We can therefore infer that the
  - A. price level increased by 3%.
  - B. price level decreased by 3%.
  - C. price level increased by 4%.
  - D. price level decreased by 4%.
  
13. The government wishes to promote private investment by reducing the rate of corporate income tax. The immediate effect of this policy will be to
  - A. increase the demand for loanable funds and reduce interest rate.
  - B. reduce the demand for loanable funds and reduce interest rate.
  - C. reduce the demand for loanable funds and increase interest rate.
  - D. increase the demand for loanable funds and increase interest rate.
  
14. The equilibrium GDP of a country is \$50,000. Government total spending is \$4,500. The government uses a proportionate tax system, with the tax rate set at 5%. The government is therefore running
  - A. a budget deficit of \$2,000.
  - B. a budget surplus of \$2,000.
  - C. a budget deficit of \$500.
  - D. a budget surplus of \$500.

15. Open market operations occur when the central bank
- A. buys or sells bonds and securities in the financial markets.
  - B. changes the discount rate.
  - C. issues new notes.
  - D. changes the statutory reserve requirement.
16. If the central bank sells securities in the open market,
- A. money supply and liquidity will fall, while domestic currency will tend to weaken.
  - B. money supply and liquidity will fall, while domestic currency will tend to strengthen.
  - C. money supply and liquidity will remain unchanged.
  - D. money supply and liquidity will increase, while domestic currency will tend to weaken.
17. Suppose that money supply is \$500,000. Real GDP is \$100,000 and the consumer price index (measuring price level) is 120. The velocity of money will be equal to
- A. 50
  - B. 12
  - C. 24
  - D. 15
18. The best way to reduce cyclical unemployment is
- A. to have expansionary monetary policy and contractionary fiscal policy.
  - B. to have expansionary monetary and fiscal policies.
  - C. to have contractionary monetary policy and expansionary fiscal policy.
  - D. to improve information flows regarding job availability.
19. Country A can produce apples while incurring opportunity cost of 0.5. Meanwhile, Country B produces apples with an opportunity cost of 2. We can conclude that
- A. country A has absolute advantage in making apples.
  - B. country B has comparative advantage in making apples.
  - C. country B has absolute advantage in making apples.
  - D. country A has comparative advantage in making apples.
20. A country's balance of payments is in equilibrium (no surplus nor deficit). The current account is in deficit and the capital and financial account is in surplus. An increase in aggregate demand due to expansionary monetary policy will likely
- A. worsen the current account deficit.
  - B. reduce current account deficit.
  - C. leave the current account deficit unchanged.
  - D. increase interest rates.

**SECTION B: Structured Questions (Total: 80 marks)**

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

**Question 1**

- (a) The chairman of Neslike Corp asks you to forecast changes in consumer milk purchases associated with a proposed price change. You conduct a survey and find that if the price of a six-pack increases from RM5.50 to RM7.50, the quantity demanded will decrease from 2,200 units to 1,800 units a month.

**Should Neslike Corp raise its price? Explain the economic basis for your recommendation to the chairman.**

(6 marks)

- (b) **Explain why a firm would not increase the price in the elastic region of its demand curve if it could avoid doing so.**

(4 marks)

- (c) **What are the factors determining the price elasticity of a product? Explain how each factor can affect the price elasticity of demand. Provide an example for each determinant.**

(10 marks)

**[Total: 20 marks]**

**Question 2**

(a)

- (i) **What is a tradable pollution permit?**

(4 marks)

- (ii) **Explain how do tradable pollution permits help in reducing environmental pollution.**

(5 marks)

- (iii) **Discuss two advantages of using tradable pollution permits to control pollution in terms of environmental benefits and revenue generation.**

(5 marks)

- (b) **Wireless Internet is provided for free in the Kuala Lumpur International Airport (KLIA).**

- (i) **Only a few people use this service initially. What type of good is this and why?**

- (ii) **As more people start using it, the speed of the connection begins to fall. Now, what type of good is this internet service?**

- (iii) **What problem might result and why? What is one possible way to correct this problem?**

(6 marks)

**[Total: 20 marks]**

### Question 3

- (a) What conditions are necessary for perfect competition? Explain which of these conditions that you list help to ensure that economic profits are driven to zero in the long run. (5 marks)
- (b) What is the relationship between marginal cost and the supply curve for a perfectly competitive firm? (7 marks)
- (c) Explain how a monopoly causes an inefficient allocation of resources while the competitive firm does not. (8 marks)

[Total: 20 marks]

### Question 4

- (a) Below are various national income accounting data for Malaysia. All figures are in RM billion.

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Compensation of employees	194
Malaysia exports of goods and services	17
Consumption of fixed capital (depreciation)	11
Government purchases	59
Taxes on production and imports	14
Net private domestic investment	52
Transfer payments	13
Malaysia imports of goods and services	16
Personal taxes	40
Net foreign factor income	2
Personal consumption expenditures	219
Statistical discrepancy	0

- (i) Explain the expenditure approach to compute Gross Domestic Product (GDP). What are the components of GDP using this approach? Provide some examples of the types of goods and services within each respective category. (6 marks)
- (ii) Based on the data above, compute the value of GDP using the expenditure approach. (4 marks)

**(b)** Suppose that in 2019 the total output in a single-good economy was 7,000 buckets of chicken. In 2019, each bucket of chicken was priced at RM10. Assume that in 2022, the price per bucket of chicken was RM16 and 22,000 buckets were purchased.

**(i) Determine the GDP price index for 2019, using 2022 as the base year.**

**(ii) By what percentage did the price level, as measured by this index, rise between 2019 and 2022?**

**(iii) Determine the value of real GDP for 2019 and 2022.**

(6 marks)

**(c)** Which of the following are included in the GDP for the current year? Explain your answer in each case.

**(i) The income of a dentist.**

**(ii) The money received by student Sandra when she sells her economics textbook to another student.**

**(iii) The monthly allowance a college student receives from her parents.**

**(iv) Rent received by the property owner on a two-bedroom apartment.**

(4 marks)

**[Total: 20 marks]**

### Question 5

- (a)
- (i) How is the Consumer Price Index (CPI) determined?
  - (ii) What effect does inflation have on the purchasing power of a unit of currency?
  - (iii) What is the difference between the nominal and real interest rate?
  - (iv) What is the real interest rate if nominal interest rate is 10% and prices rose by 6%?

(10 marks)

- (b) Distinguish between demand-pull inflation and cost-push inflation.

(5 marks)

- (c) Use the data below to calculate the following information for the Department of Statistics. All figures refer to number of persons.

Total population = 500

Population under 16 years of age and over 64 years old = 120

Not in labour force = 150

Unemployed = 23

Part-time workers looking for full-time jobs = 10

- (i) Calculate the size of the labour force.

- (ii) Calculate the unemployment rate.

(5 marks)

[Total: 20 marks]

### Question 6

- (a) What is supply-side fiscal policy? What is the rationale for it?

(8 marks)

- (b) Explain what the crowding-out effect is.

(6 marks)

- (c) Suppose that income (Y) is \$400 and the linear equation for consumption in a hypothetical economy is  $C = \$40 + 0.8Y$ . Determine the following:

- (i) the marginal propensity to consume (MPC)
- (ii) the marginal propensity to save (MPS)
- (iii) the level of consumption (C)
- (iv) the average propensity to consume (APC)
- (v) the level of saving (S)
- (vi) the average propensity to save (APS)

(6 marks)

[Total: 20 marks]

(END OF QUESTION PAPER)