

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

PROFESSIONAL EXAMINATION

CHARTERED TAX INSTITUTE OF MALAYSIA INTERMEDIATE LEVEL

ECONOMICS

SEPTEMBER 2024

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.

- 1. Which of the following statement expresses the fundamental economic problem?
 - A. There are unlimited resources and limited wants in society.
 - B. There are limited resources but unlimited wants in society.
 - C. There are some resources which nobody consumes.
 - D. Individuals have desires which are satiated by existing resources.
- 2. An individual decides to find a job after graduating from secondary school. By doing so, this individual sacrifices the chance to pursue tertiary education. This sacrifice is an example of
 - A. opportunity cost.
 - B. sunk cost.
 - C. fixed cost.
 - D. variable cost.
- 3. A start-up firm had to invest RM300 million for setting up a factory to make paper cups. This investment is an example of
 - A. opportunity cost.
 - B. sunk cost.
 - C. fixed cost.
 - D. variable cost.
- 4. A newly opened fast-food restaurant carries out a survey to determine the price sensitivity of customers. The restaurant offers set meals that currently retail at RM15 per person, and manages to sell approximately 100 meals each month. By offering a discount of 10 per cent, the restaurant discovers that it can sell 120 meals each month. It can be concluded that
 - A. the price elasticity of demand is -2, and the price discount decreases total revenue.
 - B. the price elasticity of demand is -0.5, and the price discount increases total revenue.
 - C. the price elasticity of demand is -2, and the price discount increases total revenue.
 - D. the price elasticity of demand is -0.5, and the price discount decreases total revenue.
- 5. A renowned influencer on TikTok recently released a video promoting the health benefits of bananas, leading to a craze for banana-related desserts. However, unfavourable weather conditions have affected the growth of banana trees. It can be predicted that
 - A. demand for bananas will decrease, but supply of bananas will decrease leading to an increase in prices of bananas. The quantity of bananas sold in the market may not change.
 - B. demand for bananas will increase, but supply of bananas will decrease leading to an increase in prices of bananas. The quantity of bananas sold in the market will decrease.
 - C. demand for bananas will increase, but supply of bananas will decrease leading to an increase in prices of bananas. The quantity of bananas sold in the market will increase.
 - D. demand for bananas will increase, but supply of bananas will decrease leading to an increase in prices of bananas. However, the quantity of bananas sold in the market may not change.
- 6. In the short run, an increase in the utilisation of labour can lead to an increase in production at a decreasing rate. This is an example of
 - A. decreasing returns to labour.
 - B. increasing returns to labour.
 - C. decreasing returns to scale.
 - D. increasing returns to scale.

- 7. A consultant was hired to study how a firm can increase its profitability. The consultant finds that an equi-proportionate increase in all inputs tend to increase output by the same proportion. It can be inferred that
 - A. there is constant returns to scale. Long-run marginal cost will be rising and exceeding long-run average cost.
 - B. there is constant returns to scale. Long-run marginal cost will be falling and will lie below long-run average cost.
 - C. there is constant returns to scale. Long-run marginal cost will be constant and equal to long-run average cost.
 - D. there is increasing returns to scale. Long-run marginal cost will be constant and equal to long-run average cost.
- 8. An entrepreneur recently opened a new retail outlet that sells mobile phones and related accessories. The entrepreneur believes that he is operating in a business environment closely resembling perfect competition. Thus, the following market conditions will apply except:
 - A. Firms are price-takers.
 - B. Firms make supernormal profits in the long run.
 - C. There are many buyers and sellers.
 - D. There is ease of entry and exit in the long run.
- 9. Powerten is a newly formed electric utility company responsible for generating, transmitting and distributing electricity throughout the country. Due to government regulations, Powerten is the only electric utility firm that can exist in the market. We can conclude that
 - A. Powerten faces a downward sloping demand for electricity, and maximises profit by selling electricity at a point where demand is price inelastic.
 - B. Powerten faces a downward sloping demand for electricity, and maximises profit by selling electricity at a point where demand is price elastic.
 - C. Powerten faces a horizontal demand for electricity, and maximises profit by selling electricity at a point where price equals marginal cost.
 - D. Powerten faces a downward sloping demand for electricity, and maximises profit by selling electricity at a point where price elasticity of demand is unitary.
- 10. A public good is a good that is non-excludable and non-rivalrous in consumption. Based on this definition, the following is an example of a public good:
 - A. National defence.
 - B. Toll roads.
 - C. Ice cream.
 - D. Internet access.
- 11. The following are acceptable methods to calculate national income, except:
 - A. Income approach.
 - B. Expenditure approach.
 - C. Output approach.
 - D. Adding up total production for all industries in the economy.
- 12. The following displays the gross domestic product (GDP) data for a country over a two-year period. Based on the data, we can conclude that from 2020 to 2021, price level has increased

Year	Real GDP	Nominal GDP
2020	PM100 mil	PM120 mil
2020		RIVI 120 IIII
2021	RM110 mll	RM200 mil

- A. 66.7%
- B. 5%
- C. 51.5%
- D. 10%

- 13. Suppose that a 3-sector economy is in equilibrium. National income is RM6,000; consumption = RM4,000; Investment = RM1,300. The government spending must equal:
 - A. RM200
 - B. RM500
 - C. RM600
 - D. RM700
- 14. An open economy faces persistent budget deficits. The deficit can be reduced in which of the following situations?
 - A. Increase trade deficit and increase private savings.
 - B. Reduce trade deficit and increase private savings.
 - C. Reduce trade deficit and decrease private savings.
 - D. Increase trade deficit and decrease private savings.
- 15. Based on the quantity theory of money, suppose that money supply equals RM500 million, nominal national income equals RM1 billion, and velocity equals 2. If money supply increases by 20%, while velocity and real national income remain unchanged, price would increase by A. 20%
 - B. 25%
 - C. 30%
 - D. 100%
- 16. Malaysia is said to have comparative advantage in making cars if
 - A. Malaysia has more resources in making cars than other countries.
 - B. Malaysia can make more cars compared to other countries.
 - C. cars can be made with lower opportunity cost in Malaysia compared to other countries.
 - D. cars are desired more by consumers in Malaysia than by consumers in other countries.
- 17. The following events can reduce government debts except:
 - A. Increasing interest rates.
 - B. Reduced borrowing.
 - C. Increasing tax revenue.
 - D. Increasing inflation.
- 18. Bottlenecks in the global supply chain have led to rising cost of doing business and inflation in many countries. If the central bank responds to the situation by reducing money supply,
 - A. inflation will decrease, and employment will increase.
 - B. inflation and output will increase.
 - C. inflation can be brought down, but output will increase.
 - D. inflation can be brought down, but at the expense of higher unemployment.
- 19. The following are examples of supply-side policies except:
 - A. Increasing spending on training the labour force.
 - B. Reducing interest rates.
 - C. Providing tax rebates for start-up firms or new entrepreneurs.
 - D. Increasing investment in R&D.
- 20. To counter the short-term depreciation in the Ringgit Malaysia, the central bank of Malaysia can
 - A. increase purchases of the ringgit from foreign exchange markets, but with the effect of reducing the level of foreign currency reserves and money supply.
 - B. increase purchases of the ringgit from foreign exchange markets, but with the effect of reducing the level of foreign currency reserves and increasing money supply.
 - C. increase purchases of the ringgit from foreign exchange markets, but with the effect of increasing the level of foreign currency reserves and money supply.
 - D. reduce purchases of the ringgit from foreign exchange markets, but with the effect of reducing the level of foreign currency reserves and money supply.

SECTION B: Structured Questions (Total: 80 marks)

Answer any FOUR questions out of SIX in this section.

Question 1

(a) When the price of chicken increases by 10 percent, and as a result, the quantity of chicken demanded decreases by 5 percent, calculate the price elasticity of demand. Is it elastic, inelastic, or unit elastic?

(3 marks)

(b) The table below presents income elasticities of demand for different products. Refer to it to address the following questions:

Products	Income elasticity
Salon Service	1.36
Maggi noodles	-0.76
Cigar	0.86
Business trip	5.82

- (i) Which product exhibits the most significant response in demand to changes in income?
- (ii) Which product experiences an increase in demand when income decreases during a recession?

(4 marks)

(c) The table below presents demand schedules for train travel for Ace, Althea, and Angelica.

Price (RM per km)	Quantity demanded (passenger km)				
	Ace	Althea	Angelica		
10	50	600	300		
20	45	500	250		
30	40	400	200		
40	35	300	150		
50	30	200	100		
60	25	100	50		
70	20	0	0		
80	15	0	0		
90	10	0	0		
100	5	0	0		
110	0	0	0		

(i) Calculate the consumer surplus for each consumer if the price of train travel is RM50 per kilometre.

(3 marks)

(ii) Identify the consumer with the greatest consumer surplus and explain this conclusion.

(3 marks)

(iii) Determine the change in consumer surplus for each consumer if the price of train travel decreases to RM30 per passenger kilometre.

(7 marks)

[Total: 20 marks]

Question 2

(a) Louis's Pizzeria operates as a price taker in the market, with associated costs detailed in the table below.

Output (pans per hour)	Total cost (RM per hour)	Marginal cost	Fixed cost	Variable cost	Average variable cost	Average Total cost
0	5					
1	20					
2	26					
3	35					
4	46					
5	59					

- (i) Fill in the table above.
- (ii) If Louis's Pizzeria sells for RM9 a pan, what quantity of pizza should the shop produce to maximize profit?
- (iii) Under what conditions will a firm shut down temporarily? Explain.

(3 marks)

(iv) Under what conditions will a firm exit a market? Explain.

(3 marks)

(b) The following table shows the demand schedule and cost schedule for rare earth metals encountered by Danny's Rare Earth Mine, a monopoly in the U.S. market.

Price (dollars per pound)	Quantity demanded (pounds per day)	Quantity produced (pounds per day)	Total cost	Marginal Cost	Total Revenue	Marginal Revenue
2,200	5	5	8,000	-		-
2,000	6	6	9,000			
1,800	7	7	10,000			
1,600	8	8	11,600			
1,400	9	9	13,200			
1,200	10	10	15,000			

(i) Determine the firm's total revenue, marginal revenue and marginal cost schedules. (Fill in the table above.)

(2 marks)

(4 marks)

- (ii) Calculate the profit-maximizing level of output.
- (iii) Calculate the profit-maximizing price level.

(4 marks)

[Total: 20 marks]

(2 marks)

(2 marks)

Question 3

- (a) Discuss why the average total cost curve is U-shaped and illustrate with a diagram. (6 marks)
- (b) A firm's production function typically exhibits diminishing returns to labour. Discuss. (4 marks)
- (c) Elaborate on the relationship between the marginal product curve and the average product curve, supported by a diagram.

(6 marks)

(d) Explain the difference between economies and diseconomies of scale.

(4 marks)

[Total: 20 marks]

Question 4

(a) Explain the expenditure approach and the income approach in measuring Gross Domestic Product (GDP).

(4 marks)

(b) Table below shows the transactions in Country A last year.

Item	Dollars
GDP	1,400,000
Consumption expenditure	700,000
Taxes	350,000
Transfer payments	150,000
Profits	300,000
Investment	350,000
Exports	400,000
Imports	350,000

- (i) Calculate Country A's aggregate expenditure.
- (ii) Calculate Country A's net exports.
- (iii) Calculate Country A's government expenditure.

(6 marks)

(c) Explain what is real GDP and nominal GDP.

(4 marks)

(d) The loanable funds market is the aggregate of all the individual financial markets. The figure below illustrates that the equilibrium real interest rate equates the quantity of loanable funds demanded with the quantity of loanable funds supplied. The y-axis represents the real interest rate (per cent per year), and the x-axis represents loanable funds (billions of Ringgit per year). SLF denotes the supply of loanable funds, and DLF denotes the demand for loanable funds.



- (i) Find the equilibrium real interest rate.
- (ii) Find the equilibrium quantity of loanable funds.
- (iii) What will happen to the supply of loanable funds if turmoil occurs in financial markets? What will happen to the real interest rate? Illustrate the shift of the curve in the diagram and identify the new equilibrium.

(6 marks)

[Total: 20 marks]

Question 5

(a)	What are the functions of money?	<i>(</i>)
		(5 marks)
(b)	What are the factors affecting the demand for money?	
		(4 marks)
(c)	What does the consumer price index (CPI) measure?	
		(3 marks)
(d)	What is full employment?	
		(3 marks)
(e)	Explain the different types of unemployment.	
		(5 marks)
		[Total: 20 marks]

Question 6

Suppose the government implements fiscal stimulus through temporary tax cuts.

(a) How does it impact real GDP and the price level in the short run? Use a diagram to illustrate.

(4 marks)

(b) In which type of short-run equilibrium would the government find it most advantageous to employ this policy? (Hint: link it to the employment/output level.) Use a diagram to illustrate.

(6 marks)

(c) If the government were to implement this policy when the economy is at full employment, explain the short-run and long-run effects. Use a new diagram to illustrate.

(6 marks)

(d) An increase in government expenditure shifts the AD curve rightward but it will take time to arrive at the new equilibrium for price level and real GDP. Discuss with regards to the time it takes for fiscal policy to take effect.

(4 marks)

[Total: 20 marks]

(END OF QUESTION PAPER)