

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.

DO NOT TURN OVER THIS PAGE UNTIL INSTRUCTED BY THE INVIGILATOR

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 statements about scarcity and choice is incorrect?
 - A. Scarcity is a problem that can persist even with technological advancement.
 - B. Due to scarcity, choices must be made.
 - C. Scarcity applies only to consumers and not producers.
 - D. Scarcity is a problem that applies both to the rich and the poor.
- 2. An entrepreneur is thinking about upgrading the machines used in his factory. However, the entrepreneur hesitates to make the move because he had incurred an initial cost of RM100,000 in setting up the factory 8 years ago. It seems wasteful to throw away the old machines. As an economist, your advice would be;
 - A. Upgrade the machines, since the initial cost has already been incurred.
 - B. Do not upgrade the machine, if the initial cost exceeds the marginal cost of server upgrade.
 - C. Upgrade the machines, if marginal benefit exceeds marginal cost. The RM100,000 is a sunk cost and should not be considered for decision-making.
 - D. Upgrade the machines, if total benefit exceeds the total cost of server upgrade. The RM100,000 is a sunk cost and should not be considered for decision-making.
- 3. The sudden increase in the frequency of rain has led to a rise in demand for umbrellas. However, there is also a shortage of workers in factories making umbrellas. We can expect the
 - A. price of umbrellas to increase, and more umbrellas will be sold in the market.
 - B. price of umbrellas to increase, but fewer umbrellas will be sold in the market.
 - C. price of umbrellas to decrease, but the quantity sold in the market may rise or fall.
 - D. price of umbrellas to increase, but the quantity sold in the market may rise or fall.
- 4. The price of RON95 petrol is expected to increase by 60% after the rationalisation of petrol subsidies. Market analysts have estimated the fall in quantity demanded for RON95 to be in the range of 10-20%. This lack of response from buyers of RON95 makes sense for the following reasons except
 - A. petrol is a necessity for travel.
 - B. there are not many substitutes for RON95.
 - C. public transport infrastructure is not well developed, so cars and petrol are still important.
 - D. petrol occupies a large percentage in a household's budget.
- 5. A market research firm found that if prices of Xiaomi phones increased by 5%, iPhones will experience a surge in demand by 10%. This implies that
 - A. cross price elasticity of demand for iPhones is 2, and Xiaomi and iPhones are complements.
 - B. cross price elasticity of demand for iPhones is 2, and Xiaomi and iPhones are substitutes.
 - C. cross price elasticity of demand for iPhones is 0.5, and Xiaomi and iPhones are complements.
 - D. cross price elasticity of demand for iPhones is 0.5, and Xiaomi and iPhones are substitutes.

- 6. A survey was conducted to assess the brand reputation of Zu's Coffee products. For a cup of hot café mocha retailing at RM13.90, a consumer is willing to pay RM20. If the consumer is asked to consume another cup of the same drink, the willingness to pay drops to RM15. We conclude that
 - A. the consumer surplus of a marginal increase in hot café mocha is RM1.10.
 - B. the consumer surplus of a marginal increase in hot café mocha is RM6.10.
 - C. the consumer surplus of a marginal increase in hot café mocha is RM5.
 - D. the consumer surplus of a marginal increase in hot café mocha is RM13.90.
- 7. The factory manager of a production facility that tests semiconductors discovers that a continuous increase in the employment of workers while keeping the production facility size unchanged, will eventually lead to a decline in marginal physical product of labour. The factory manager can also conclude that
 - A. short-run marginal cost will increase, and short-run average cost will decrease.
 - B. short-run marginal cost and average cost will decrease.
 - C. short-run marginal cost and average cost will increase.
 - D. short-run marginal cost will decrease, and short-run average cost will increase.
- 8. In the long run, an increase in production scale for a rubber factory could lead to a fall in average cost. The reasons for this decrease in long-run average cost include the following except:
 - A. Division of labour and specialisation.
 - B. Banks giving lower interest rates to large and more financially stable firms.
 - C. Indivisibilities in the production process.
 - D. Marginal physical product of labour is rising due to increasing returns to labour.
- 9. The government's decision to impose a sales tax on a monopolist producer will likely result in:
 - A. higher market price and a rise in quantity produced.
 - B. higher market price and a fall in quantity produced.
 - C. market price is unchanged, but quantity produced increases.
 - D. quantity produced is unchanged, but market price increases.
- 10. In oligopolistic markets, a collusion agreement is likely to be sustainable if
 - A. member firms have very similar cost structures and technologies.
 - B. compliance monitoring cost is very high.
 - C. it is difficult to detect cheating by member firms.
 - D. market is highly volatile with large fluctuations in profits.
- 11. The gross domestic product (GDP) at current prices is RM300 million and RM460 million in 2020 and 2021, respectively. The GDP deflator, which was 110 in 2020, increased to 145 in 2021. Thus, from 2020 to 2021, real GDP has
 - A. increased by 16%.
 - B. decreased by 16%.
 - C. remained unchanged.
 - D. increased by 20%.
- 12. A government statistician finds that in 2022: the total rental income = RM272 million; wage income = RM348 million; profits = RM200 million. The sum of production value across all industries equals RM2 trillion. It can be concluded that
 - A. national income is the sum of production value less wage income.
 - B. there is insufficient data to work out national income.
 - C. national income is equal to the sum of production value, which is RM2 trillion.
 - D. national income is the sum of rental income, wage income and profits using the income approach.

- 13. An economy that is undergoing a rising current account surplus is facing tensions with trade partners. To reduce the surplus, the following makes sense except:
 - A. decrease private savings.
 - B. increase government spending.
 - C. cut taxation.
 - D. decrease investment.
- 14. Stimulating aggregate demand could reduce the following type of unemployment:
 - A. structural unemployment.
 - B. cyclical unemployment.
 - C. frictional unemployment.
 - D. real wage unemployment.
- 15. According to the equation of exchange, MV = PY (M = money supply, V = velocity of circulation, P = price level, Y = real GDP). If M = RM5 billion, and GDP at current prices is RM400 million, velocity must equal
 - A. 12.5
 - B. 0.08
 - C. 5
 - D. 2.5
- 16. To counter a rise in inflation rate due to increases in energy prices, the central bank decides to increase the policy rate. Critiques of the central bank commented that this could worsen the economy because
 - A. aggregate demand will fall, and this will narrow the recessionary gap.
 - B. aggregate demand will rise, and this will widen the recessionary gap.
 - C. aggregate demand will fall, and this will widen the recessionary gap.
 - D. aggregate demand will rise, and this will open up an inflationary gap.
- 17. The government's intention to increase its spending by selling more bonds to the non-bank public will likely
 - A. decrease broad money supply initially but this is followed by an increase in broad money supply.
 - B. reduce broad money supply.
 - C. have no effect on broad money supply.
 - D. increase broad money supply.
- A government that is facing persistent trade account deficits in the balance of payments intends to find ways to cover or reduce the deficit. The following are correct policies except A. encouraging more inward foreign direct investment.
 - B. allowing more foreign multinational corporations to repatriate a larger share of their earnings back to the home countries.
 - C. opening up the financial markets to global institutional investors.
 - D. improving the export competitiveness of local firms.
- 19. A country can produce two goods: computers and cars. A unit of labour can make either 12 computers or 10 cars. Suppose that the country chooses to specialise in car production and considers participating in international trade. The current terms-of-trade specifies that 1 car can be traded for 1 computer. The country in question will choose
 - A. not to engage in trade, because it could do better on its own since domestically, one car can be exchanged for 1.2 computers.
 - B. to engage in trade, because countries always benefit from trade.
 - C. to engage in trade because the terms-of-trade are favourable.
 - D. not to engage in trade because there is insufficient data to make a decision.

- 20. The following are supply-side policies aimed at increasing productivity and potential output except
 - A. increase purchase increasing investment in research and development.
 - B. cutting corporate tax to encourage businesses to innovate.
 - C. approving more employee provident fund (EPF) withdrawals to compensate for higher living expenses.
 - D. increasing the budget for re-skilling unemployed workers.

SECTION B: Structured Questions (Total: 80 marks)

Answer any FOUR questions out of SIX in this section.

Question 1

(a) What happens to the market for popcorn when the price of butter increases, assuming butter and popcorn are complementary goods?

Your answer should explain the supply, demand, quantity supplied, quantity demanded, equilibrium price and equilibrium quantity in the market for popcorn. Explain using a diagram. (5 marks)

(b) A market is defined by the following demand and supply curves: Supply: Qs = 2P Demand: Qd = 600-P

Find the equilibrium price (P) and quantity (Q).

(4 marks)

- (c) On a typical day in Kampar, hotel rooms are rented at RM100, with 100 rooms rented. To increase revenue, the government imposes a RM10 tax on each rented room. After the tax is implemented, the price of hotel rooms rises to RM105, and the number of rooms rented decreases to 90.
 - (i) Calculate the amount of revenue before and after tax. (2 marks)
 (ii) How much is the tax revenue? (2 marks)
 (iii) Define deadweight loss. (2 marks)
 (iv) Calculate the deadweight loss of the tax. (2 marks)
 (v) Draw a diagram in the answer booklet that shows the areas for tax revenue and deadweight loss. (3 marks)

6

Question 2

- (a) Adam enjoys playing jive music at high volume late at night, while Susan loves jazz and dislikes jive music. Unfortunately, they live next door to each other in an apartment building with thin walls. Both of them rent their apartments.
 - (i) What is the externality in this situation?

(2 marks)

(ii) What command-and-control policy could the landlord impose to address the issue?

(2 marks)

(iii) According to the Coase Theorem, how could Adam and Susan negotiate an efficient outcome on their own? What factors might prevent them from achieving an efficient outcome?

(5 marks)

- Quantity Variable **Total Cost** Average Average Marginal Total Cost Cost Cost (VC) Variable (Q) (TC) Cost (AVC) (ATC) (MC) 0 0 100 --150 1 50 2 90 190 3 120 220 4 150 250 5 200 300
- (b) Michelle's Bakery Shop has the following cost schedules:

(i) Calculate the average variable cost (AVC), average total cost (ATC), and marginal cost (MC) for each quantity.

(2 marks)

(ii) Graph these curves (AVC, ATC, and MC) with the correct labels.

(4 marks)

(iii) Explain the relationship between MC and ATC, and the relationship between MC and AVC.

(5 marks)

[Total: 20 marks]

Question 3

(a) List three characteristics of monopolistically competitive markets.

(3 marks)

(b) If a firm is earning a supernormal profit in a monopolistically competitive market, explain what happens to this firm as new firms enter the industry. (Note: a diagram is not required).

(5 marks)

- (c) Draw a diagram illustrating the long-run equilibrium in a monopolistically competitive market. How does the price compare with the average total cost and marginal cost? (6 marks)
- (d) Explain how barriers to entry in an oligopoly market affect competition, pricing, and profitability.

(6 marks)

[Total: 20 marks]

Question 4

(a) Given the following data for a country's economy in 2023, calculate i) the nominal Gross Domestic Product (GDP), ii) real GDP (using 2022 as the base year), and iii) the GDP deflator:

<u>2023 Prices and Quantities:</u> Product A: Price = \$10, Quantity = 1000 units Product B: Price = \$20, Quantity = 500 units

<u>2022 Prices and Quantities:</u> Product A: Price = \$8, Quantity = 1000 units Product B: Price = \$18, Quantity = 500 units

(6 marks)

(b) Why is nominal GDP important? Over time, in what way can it be a misleading measurement?

(4 marks)

(c) How do we interpret the GDP deflator? Interpret the GDP deflator value you have calculated in part (a) (iii) above.

(4 marks)

(d)

- (i) Explain what is the Consumer Price Index (CPI).
- (ii) How is it calculated?
- (iii) Interpret the meaning if CPI = 110.
- (iv) What does the CPI tell us about the economy?

(6 marks)

[Total: 20 marks]

Question 5

(a) Assume that the reserve requirement set by the central bank is 10% and total reserves in the banking system are \$200 million.

	(i)	Explain the concept of the money multiplier.	(4 marks)
	(ii)	Calculate the money multiplier.	(2 marks)
	(iii)	What is the potential money supply in the economy?	(2 marks)
(b)	The une	labour force consists of 100 million people. There are 5 millio mployed. Calculate the unemployment rate.	n people (2 marks)
(c)	Wha	at would not be included in the calculation of the unemployment rate?	(6 marks)
(d)	In a c peop rate (country, the working-age population is 200 million. The labour force has 1 le. There are 120 million people employed. Calculate the labour force par (LFPR) and explain the meaning.	40 million rticipation

(4 marks)

[Total: 20 marks]

Question 6

(a) What is the difference between absolute advantage and comparative advantage? Why is comparative advantage important in trade?

(6 marks)

- (b) Country A and Country B produce two goods: wine and cloth. In one year, Country A can produce 10 units of wine or 20 units of cloth, while Country B can produce 8 units of wine or 16 units of cloth. Both countries have 10 labour hours available per year for production.
 - (i) Identify which country has the absolute advantage in producing each good?

(2 marks)

(ii) Identify which country has the comparative advantage in producing each good? Show your opportunity cost calculations.

(6 marks)

(iii) What do these results imply for trade between the two countries?

(2 marks)

(c) What are automatic stabilizers in an economy, and how do they help to stabilize output and employment during economic fluctuations?

(4 marks)

[Total: 20 marks]

(END OF QUESTION PAPER)