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

PROFESSIONAL EXAMINATION

INTERMEDIATE LEVEL

ECONOMICS

SEPTEMBER 2026

Student Registration No.		**Date**	
Desk No.		**Examination Centre**	

Time allowed: 3 hours

INSTRUCTIONS TO CANDIDATES

1. This paper consists of **THREE** sections:

   SECTION A contains **TWENTY** multiple choice questions
   - Answer **ALL** questions

   SECTION B contains **THREE** questions
   - Choose any **TWO** questions out of THREE

   SECTION C contains **THREE** questions.
   - Choose any **TWO** questions out of THREE

2. Each answer should begin on a separate answer template.

3. 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. If the price of a good is currently below the equilibrium price, which of the following dynamics will occur in the market?
   A. A shortage exists, causing buyers to bid up the price toward equilibrium.
   B. A surplus exists, causing sellers to cut prices to clear out inventory.
   C. The demand curve will shift to the right to correct the market imbalance.
   D. The supply curve will shift to the left until equilibrium is reached.

2. Suppose the price of a good increases from $RM10 to $RM12 and, as a result, the quantity demanded falls from 110 units to 90 units. Using the midpoint method, what is the price elasticity of demand?
   A. 1.10
   B. 0.90
   C. 1.00
   D. 1.22

3. When a government imposes a binding price ceiling on a competitive market, what is the typical long-run outcome compared to the short-run outcome?
   A. The market naturally transitions back to its original equilibrium point.
   B. The shortage disappears in the long run as producers adjust to the lower price.
   C. A persistent surplus develops in the long run as consumers reject low-quality goods.
   D. The shortage becomes more severe in the long run because both supply and demand become more elastic.

4. How do the price elasticities of supply and demand affect the deadweight loss resulting from a newly imposed tax?
   A. The deadweight loss depends entirely on the elasticity of supply while demand elasticity has no effect.
   B. Deadweight loss is greater when both supply and demand are relatively inelastic.
   C. Deadweight loss is greater when both supply and demand are relatively elastic.
   D. Elasticity determines tax incidence but has no impact on the size of the deadweight loss.

5. In the analysis of a firm's costs of production, why does the short-run marginal-cost curve eventually slope upward?
   A. Because total fixed costs increase as production expands.
   B. Because of the property of diminishing marginal product.
   C. Because the firm experiences economies of scale at higher levels of output.
   D. Because average variable cost is always decreasing.

6. Which of the following describes consumer surplus?
   A. The amount a buyer is willing to pay for a good minus the amount the buyer actually pays for it.
   B. The amount a seller is paid for a good minus the seller's cost of providing it.
   C. The total revenue a firm receives minus its explicit opportunity costs.
   D. The difference between total willingness to pay and total cost of production.

7. A perfectly competitive firm faces a horizontal demand curve. This implies that the firm is
   A. unable to earn a normal profit in the long run.
   B. a price maker that can set any price it wishes.
   C. operating with an inelastic demand for its product.
   D. a price taker that can sell any quantity at the market price.

8. Which of the following is a defining characteristic of a monopolistically competitive market compared with a monopoly?
   A. Firms face a perfectly horizontal demand curve.
   B. There is a single seller protected by high barriers to entry.
   C. There are many sellers offering differentiated products with free entry and exit.
   D. Firms can earn positive economic profits in the long run.

9. A profit-maximizing monopoly will choose an output level where
   A. price equals marginal cost.
   B. marginal revenue equals marginal cost.
   C. average total cost is minimized.
   D. total revenue is maximized.

10. In an oligopoly market, firms are highly interdependent. This means that
   A. each firm's profit depends not only on how much it produces, but also on how much other firms produce.
   B. firms always successfully collude to achieve monopoly profits.
   C. the market outcome is identical to that of perfect competition.
   D. firms pay no attention to the actions of their competitors.

11. Given two scenarios which are (i) Japanese electronics factories operating in Malaysia and (ii) Malaysians working in Singapore, which statement correctly distinguishes Malaysia's gross domestic product (GDP) from its gross national product (GNP)?
   A. GDP includes income earned by Malaysians working in Singapore, but GNP does not.
   B. GNP includes the income earned by the Japanese electronics factories operating in Malaysia, but GDP does not.
   C. GDP measures output produced within Malaysia's borders regardless of who owns the factor of production; GNP measures output produced by Malaysian-owned factors of production regardless of location.
   D. GDP and GNP are identical for all countries.

12. The consumer price index (CPI) for Malaysia rises from 100 in 2025 to 115 in 2026. What is the real wage over the same period if nominal wage rises from RM2,000 to RM2,200?
   A. Real wage increased by RM200.
   B. Real wage decreased as the percentage increase in nominal wage was 10 per cent, which was less than the inflation rate of 15 per cent.
   C. Real wage stayed exactly the same at RM2,200.
   D. Real wage is indeterminate as there is no GDP deflator provided.

13. Bank Negara Malaysia (BNM) sets the Statutory Reserve Requirement (SRR) at two per cent. If a commercial bank in Malaysia receives a new deposit of RM1,000 and the banking system holds no excess reserves, what is the maximum total increase in the money supply that can result~~s~~ from this deposit through the banking system?
   A. RM1,000
   B. RM10,020
   C. RM20,000
   D. RM50,000

14. Prices tend to rise over time. Why do retirees living on a fixed monthly pension of RM3,500 find that their purchasing power falls significantly, while borrowers with fixed-rate housing loans benefit?
   A. This is an illustrated example of shoeleather costs.
   B. This is an illustrated example of menu costs.
   C. The redistribution of wealth between debtors and creditors due to unexpected inflation.
   D. The cost of relative price variability affecting resource allocation.

15. Which of the following conditions define an unemployed person?
    A. They are not currently working but are actively seeking for a job and available to work.
    B. They are not currently working, regardless of whether they are seeking for a job.
    C. They have given up looking for a job after a long search.
    D. They are working part-time but want a full-time job.

16. Malaysian palm oil producers and steel manufacturers sometimes lobby the government for tariffs on imported palm oil substitutes or imported steel. Which of the following is a commonly cited argument for restricting such trade?
    A. Restricting trade always increases the total economic welfare of Malaysia, with no losers.
    B. The jobs argument: protecting domestic industries from foreign competition preserves jobs for Malaysian workers.
    C. Restricting trade lowers prices for Malaysian consumers.
    D. Free trade always harms a country's national security.

17. For a closed economy, if national saving (S) equals private saving plus public saving, and the government runs a budget deficit, what is the most likely effect on investment, holding private saving constant?
    A. Investment increases, because a budget deficit increases national saving.
    B. A budget deficit has no relationship to national saving or investment.
    C. Investment is unaffected by changes in national saving.
    D. Investment decreases, because a budget deficit reduces national saving, and S = I in equilibrium.

18. If Bank Negara Malaysia lowers the Overnight Policy Rate (OPR), making borrowing cheaper for Malaysian households and firms, what is the expected short- run ~~run~~ effect on aggregate demand and national income?
    A. Aggregate demand decreases, lowering national income.
    B. Aggregate demand is unaffected by OPR changes.
    C. Aggregate demand increases, leading to higher national income in the short run.
    D. National income falls because lower interest rates reduce consumption and investment.

19. Suppose a sharp rise in global oil prices increases production costs for Malaysian firms. Based on the Phillips curve framework, what is the most likely short-run outcome for Malaysia?
    A. Both inflation and unemployment fall simultaneously.
    B. The Phillips curve shifts outward (to the right), so Malaysia experiences higher inflation and higher unemployment at the same time (stagflation).
    C. The economy moves along a stable Phillips curve, with lower inflation accompanying lower unemployment.
    D. Supply shocks have no effect on the short-run Phillips curve.

20. The Malaysian government announces a RM5 billion increase in building new highways financed by borrowing. According to the crowding- out effect, what is the possible consequence of this policy?
    A. The spending increase causes interest rates to rise, which may reduce private investment, partially offsetting the expansionary effect on national income.
    B. Increased government borrowing has no effect on interest rates or private investment.
    C. The spending increase always results in a larger total increase in national income than predicted by the simple multiplier.
    D. Crowding -out only occurs when the government cuts taxes, not when it increases spending.

SECTION B (MICROECONOMICS): Structured Questions (Total: 40 marks)

Answer any **TWO** questions out of **THREE** in this section. Each question is worth a total of 20 marks.

Section B: Question 1

(a) The market for smartphone applications is initially in equilibrium. Suppose the price of a popular gaming app ~~increases~~increase from ~~$~~RM4 to ~~$~~RM6~~.~~ and ~~A~~as a result, the quantity demanded of the app falls from 120,000 downloads per month to 80,000 per month.

(i) **Calculate the price elasticity of demand using the midpoint method. State whether the demand is elastic, inelastic or unit elastic.**

(3 marks)

(ii) **Identify and briefly explain two determinants that would make the demand for a good more price~~-~~ elastic.**

(2 marks)

(iii) Suppose a software firm discovers that the price elasticity of supply for their apps is highly inelastic in the short run but elastic in the long run.

Explain the primary implication of this transition for the firm when market demand suddenly spikes.

(5 marks)

(b) The government decides to introduce a ~~$~~RM2 per-unit tax on a market, creating a tax wedge between the price paid by buyers (Pb) ad the price received by sellers (Ps). Suppose this tax is applied to two different markets: Market A features highly elastic supply and demand curves, while Market B features highly inelastic supply and demand curves**.**

Analyse both markets using a side-by-side graphical framework for illustration. Explain how the differences in elasticity dictate the change in quantity traded (ΔQ) and the resulting size of the deadweight loss (DWL).

(6 marks)

(c)

(i) **Distinguish between a public good and a common resource based on the concepts of *excludability* and *rivalry*.**

(2 marks)

(ii) **Explain the free-rider problem and discuss why it prevents private markets from efficiently providing public goods like national defence.**

(2 marks)

[Total: 20 marks]

Section B: Question 2

(a) Suppose a firm operates in a perfectly competitive market. The market price for the good is fixed at **$RM40 per unit**. The firm's total cost (TC) function is given by the equation:

$$TC = 50 + 4Q + 2Q^2$$

From this, the firm's marginal cost (MC) equation is derived as:

$$MC = 4 + 4Q$$

(Where Q represents the quantity of output produced.)

(i) **State the condition for a perfectly competitive firm to maximize profit. Calculate the profit-maximizing quantity (Q*) for this firm.**

(3 marks)

(ii) **Calculate the firm's total revenue (TR), total cost (TC), and the maximum economic profit at this output level. Is this firm operating in the short run or the long run? Explain based on your profit calculation.**

(4 marks)

(iii) **Determine the firm's fixed cost (FC) and average variable cost (AVC) equations. Calculate the exact shutdown price for this firm in the short run.**

(3 marks)

(b) Now consider a market with a single firm. The inverse market demand curve faced by the monopolist is given by

$$P = 100 - 2Q$$

The monopolist's total cost function is:

$$TC = 100 + 20Q + Q^2$$

The corresponding marginal revenue (MR) and marginal cost (MC) functions are:

$$MR = 100 - 4Q$$

$$MC = 20 + 2Q$$

(i) **Explain why a monopolist's marginal revenue curve lies below its demand curve (MR < P). Calculate the profit-maximizing quantity (Q_M) and the monopoly price (P_M) charged to consumers.**

(4 marks)

(ii) **Calculate the monopolist's economic profit at this equilibrium.**

(3 marks)

(iii) **Calculate the socially efficient level of output ($Q_{Enterprise}$) where total surplus is maximized, and explain why a monopoly market structure creates a deadweight loss**.

(3 marks)

[Total: 20 marks]

Section B: Question 3

(a) An entrepreneurial firm operates a small commercial bakery in the short run. The firm leases a fixed baking facility for $RM100 per day (its only fixed input). The table below displays the bakery's daily production function and labour costs. Each worker is paid a constant market wage of $RM60 per day.

Quantity of Workers(L)	Total Output of Cakes (Q)	Marginal Product of Labour (MPL)	Total Fixed Cost (TFC)	Total Variable Cost (TVC)	Total Cost (TC)	Average Total Cost (ATC)	Marginal Cost (MC)
0	0	—	(i)	(iv)	(vii)	—	—
1	10	10	(ii)	(v)	(viii)	(x)	(xi)
2	30	20	$RM100	$RM120	$RM220	$RM7.33	$RM6.00
3	45	15	(iii)	(vi)	(ix)	(xii)	(xiv)
4	55	10	$RM100	$RM240	$RM340	(xii)	(xv)

Required:

(i) **Complete the missing values (i) through (xv) in the table above**.

(5 marks)

(ii) Suppose the owner used $20,000 of their own personal savings to buy mixing equipment instead of leaving it in a bank account where it would earn 5% annual interest. Additionally, the owner quit a corporate job paying $RM150 per day to run this bakery.

Define opportunity cost and calculate the total daily implicit costs incurred by the owner.

(3 marks)

(iii) If the bakery sells its cakes in a competitive market for $RM10 each and produces at the output level corresponding to four workers, **calculate the firm's daily accounting profit and economic profit (incorporating your answer from part (ii).**

(2 marks)

(b)

(i) **Analyse the behaviour of the Marginal Product of Labour (MPL) as employment increases from one to four workers. State the economic law illustrated by this trend, and explain the U-shape of the short-run Marginal Cost (MC) curve.**

(4 marks)

(ii) **Explain the relationship between the Marginal Cost (MC) curve and the Average Total Cost (ATC) curve. At what specific structural property or point do these two curves intersect?**

(3 marks)

(iii) **Distinguish between the short run and the long run regarding a firm's production decisions with regards to its use of inputs. Explain what causes a long-run average total cost (LRATC) curve to experience economies of scale.**

(3 marks)

[Total: 20 marks]

SECTION C (MACROECONOMICS): Structured Questions (Total: 40 marks)

Answer any **TWO** questions out of **THREE** in this section. Each question is worth a total of 20 marks.

Section C: Question 4

(a) Suppose the following hypothetical data describe Malaysia's economy for a given year, measured in RM billion:

Component	RM billion
Consumption (C)	650
Investment (I)	250
Government Purchases (G)	220
Exports (X)	480
Imports (M)	400

(i) **Using the expenditure approach, calculate Malaysia's gross domestic product (GDP) for this year. Show your formula and workings.**

(3 marks)

(ii) **Explain why net exports can be either positive or negative. What does a positive value indicate about Malaysia's trade position?**

(3 marks)

(iii) **Distinguish between nominal GDP and real GDP. Explain why real GDP is a better measure of an economy's production for comparing Malaysia's economic performance across different years.**

(3 marks)

(b) The Consumer Price Index (CPI) for Malaysia is based on the cost of a fixed "basket" of goods and services typically purchased by an urban household, including food, housing, transport, and communication. Suppose a simplified Malaysian household's basket and prices are as follows:

Item (Basket Quantity)	Price in Year 2023 (RM)	Price in Year 2024 (RM)
10 kg of rice	28.00	30.00
20 litres of RON95 petrol	42.00	42.00
1 month of house rental	800.00	850.00

Required:

Assume 2023 is the base year. Answer the following:

(i) **Calculate the cost of the basket in 2023 and in 2024. Then compute the CPI for 2024.** (3 marks)

(ii) **Using your answer in (i), calculate the inflation rate between 2023 and 2024.**

(3 marks)

(iii) Bank Negara Malaysia (BNM) is responsible for setting the Overnight Policy Rate (OPR), which influences interest rates charged by commercial banks such as Maybank and CIMB on loans to businesses and individuals. In 2024, several Malaysian small and medium enterprises (SMEs) reported difficulty in obtaining affordable financing for new factory equipment, while household savings in Amanah Saham and fixed (time) deposits remained high.

Using the market for loanable funds model, draw a diagram showing the demand for and supply of loanable funds. Explain how the curves depict the scenario described above. Identify what determines the slope of each curve, i.e. positive or negative slope.

(5 marks)

[Total: 20 marks]

Section C: Question 5

(a) **Define money supply and explain the three functions of money. Using Malaysian examples (e.g. Ringgit notes, savings account), classify each function.**

(6 marks)

(b) **If Bank Negara Malaysia (BNM) wants to increase the money supply in the Malaysian economy, explain one open-market operation the central bank could undertake.**

(3 marks)

(c) **State the Quantity Equation and define each variable.**

(2 marks)

(d) **Suppose Malaysia's nominal gross domestic product (GDP) is RM1,600 billion, the money supply (M2) is RM2,000 billion, and real GDP is RM1,000 billion. Calculate the velocity of money and GDP deflator.**

(4 marks)

(e) **Using the quantity theory of money, explain why a rapid increase in Malaysia's money supply is likely to cause inflation.**

(2 marks)

(f) **A fresh graduate with a degree in Mass Communication spends three months searching for a suitable job after graduation, while turning down low~~er~~-paying offers in unrelated fields. Identify and explain which type of unemployment this represents and explain one typical government initiative that could help reduce this type of unemployment**.

(3 marks)

[Total: 20 marks]

Section C: Question 6

(a) Malaysia and Vietnam both produce palm oil and electronics. The table below shows the maximum output each country can produce per worker per month using the same amount of resources.

	Palm Oil (tonnes)	Electronics (units)
Malaysia	100	50
Vietnam	80	20

Required:

(i) **Determine which country has an absolute advantage in each good.**

(2 marks)

(ii) **Calculate the opportunity cost of producing one unit of electronics for both Malaysia and Vietnam. Hence, determine which country has a comparative advantage in electronics.**

(6 marks)

(iii) **Based on your answer in (ii), explain how Malaysia and Vietnam can both gain from trade if they specialise according to comparative advantage.**

(5 marks)

(b) In 2025, Bank Negara Malaysia (BNM) raised the Overnight Policy Rate (OPR) to combat rising inflation. At the same time, global semiconductor shortages raised production costs for Malaysian electronics manufacturers (a key export sector).

(i) **Explain how each of the events (i.e. the increase in the OPR and the rise in production costs due to the semiconductor shortage) would shift the AD and/or AS curve(s). Illustrate the combined effect on a single diagram.**

(5 marks)

(ii) **Based on your diagram in (i), explain the resulting effect on Malaysia's equilibrium price level and real gross domestic output (GDP).**

(2 marks)

[Total: 20 marks]

(END OF QUESTION PAPER)