



**CHARTERED INSTITUTE OF TAXATION (225750 T)
(Institut Percukaian Malaysia)**

PROFESSIONAL EXAMINATIONS

INTERMEDIATE LEVEL

ECONOMICS

PILOT PAPER

Student Reg. No

Date

Desk no

Examination centre

Time allowed: 3 hours

INSTRUCTIONS TO CANDIDATES

1. You may answer this paper **EITHER** in English **OR** Bahasa Malaysia. Only **ONE** language is to be used.
2. This paper consists of **TWO** sections. **SECTION A** contains **TWENTY** multiple choice questions, and **SECTION B** contains **SIX** questions.
3. Answer **ALL** questions in **SECTION A** and choose any **FOUR** questions out of **SIX** from **SECTION B**.
4. All workings for **SECTION B** are to be shown.
6. Answers should be written in either black or blue ink.
7. No question paper or answer booklet is to be removed from the examination hall.

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) Resources are
 - A. scarce for households but abundant for economies.
 - B. plentiful for households but scarce for economies.
 - C. scarce for both households and economies.
 - D. plentiful for households and plentiful for economies.

- 2) Taxes distort the allocation of resources in society because
 - A. they do not always fall more heavily on the rich than on the poor.
 - B. the taxes collected are not enough to finance government spending.
 - C. not everyone pays taxes.
 - D. they adversely affect prices as well as the decisions of households and firms.

- 3). In a competitive market,
 - A. only a few sellers sell the same product.
 - B. each seller has a limited degree of control over the price of its product.
 - C. if one buyer chooses to purchase a large quantity of the product, the price will rise.
 - D. each seller has a high degree of control over the price of its product.

- 4) A monopoly is a market
 - A. with one seller, and that seller is a price taker.
 - B. with one seller, and that seller is a price setter.
 - C. with one buyer and many sellers.
 - D. with many buyers and many sellers.

- 5) The amount of the good buyers are willing and able to purchase is
 - A. dependent on consumers' wants.
 - B. called quantity demanded.
 - C. determined by how much the firm sells.
 - D. called quantity supplied.

- 6) Currently you purchase 20 packets of instant noodles a month. You will graduate from university in December and start a new job in January the following year. You have no plans to purchase instant noodles in January. For you, instant noodles are
 - A. a substitute good.
 - B. a normal good.
 - C. an inferior good.
 - D. a law-of-demand good.

- 7). Refer to Figure 1. The movement from point A to point B on the curve would be caused by

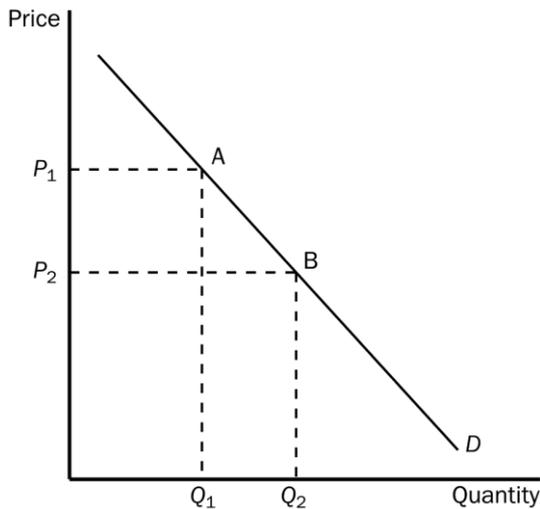


Figure 1

- A. an increase in price.
B. a decrease in price.
C. a decrease in the price of a substitute good.
D. an increase in tax.
- 8) The relationship between price and quantity supplied is
- A. negative.
B. positive.
C. the same as the relationship between price and quantity demanded.
D. not well understood as a change in price may shift the supply curve leftward or rightward.
- 9) On weekends many people hike on national park hiking trails. Some trails become so overcrowded that the benefit or value of hiking diminishes to zero. An overcrowded hiking trail is an example of a
- A. tragedy of the commons.
B. private good.
C. natural monopoly.
D. public good.
- 10) For a firm, the relationship between the quantity of inputs and quantity of output is called the
- A. supply function.
B. production function.
C. total cost function.
D. revenue function.

- 11) Macroeconomists study
- A. decisions made by individuals and groups.
 - B. the interaction of households and firms.
 - C. economy-wide phenomena.
 - D. regulations on firms and unions.
- 12) Which of the following statements about GDP is correct?
- A. GDP measures two things at once - the total income of everyone in the economy and the unemployment rate.
 - B. Money continuously flows from households to government and then back to households, and GDP measures this flow of money.
 - C. GDP is to a nation's economy as household income is to a household.
 - D. GDP includes the total income of everyone in the economy, and excludes the total expenditure on the economy's output of goods and services.
- 13) How does gross domestic product (GDP) differ from gross national product (GNP) in Malaysia?
- A. $GNP = GDP$ minus losses from depreciation
 - B. $GNP = GDP +$ income earned by Malaysian citizens abroad - income earned by foreign citizens in Malaysia.
 - C. $GNP = GDP +$ income earned by Malaysian corporations overseas.
 - D. $GNP = GDP -$ indirect business taxes in Malaysia + business subsidies.
- 14) The nominal interest rate is the
- A. interest rate adjusted for inflation.
 - B. interest rate as quoted by commercial banks.
 - C. real rate of return to the lender.
 - D. real cost of borrowing to the borrower.
- 15) The natural rate of unemployment is the
- A. unemployment rate that would prevail with zero inflation.
 - B. rate associated with the highest possible level of GDP.
 - C. difference between the long-run and short-run unemployment rates.
 - D. unemployment rate that would prevail with a constant rate of inflation.
- 16) Money
- A. is more efficient than barter.
 - B. makes trading easier.
 - C. allows greater specialization.
 - D. All of the above are correct.

- 17) When a bank loans out \$1,000, *ceteris paribus*, the money supply
- does not change.
 - decreases.
 - increases.
 - any of the above is possible.

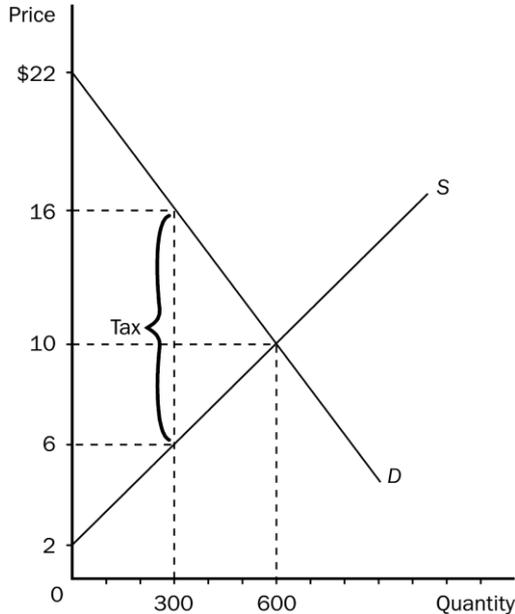


Figure 2

18. Refer to Figure 2. When the state authorities impose a tax in this market, the tax revenue is
- \$600.
 - \$3,000.
 - \$1,500.
 - \$6,000.
19. Refer to Figure 2. The amount of the tax on each unit of the good is
- \$6.
 - \$8.
 - \$10.
 - \$48.
20. Which of the following is correct?
- A firm that maximises profit will employ the quantity of a factor such that the marginal revenue product of the factor exceeds its marginal cost.
 - During a boom period, labour is considered a fixed input as it is difficult to employ more when firms need them.
 - The marginal revenue product of a factor is the change in total revenue from employing an additional unit of the factor.
 - The marginal revenue of the firm is actually the same as the marginal revenue product.

SECTION B: Structured Questions (Total: 80 marks)

Answer any FOUR questions in this section. Each question is worth twenty (20) marks.

Question 1

The demand and supply equations for good X are as follows:

$$Q_d = -20 + 3P$$

$$Q_s = 220 - 5P$$

- (a) Using the above equations, calculate the equilibrium price and quantity. **(5 marks)**
- (b) Based on the equations, calculate the quantity demanded and quantity supplied for every price level shown in the table below. State whether there is surplus or shortage in the market. **(5 marks)**

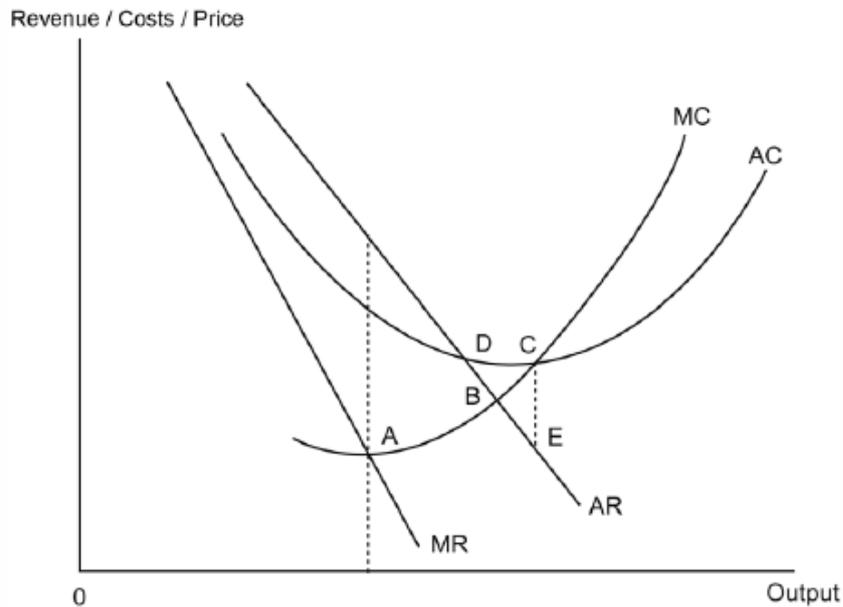
| Price (RM) | 10 | 20 | 30 | 40 | 50 |
|--------------------------|----|----|----|----|----|
| Quantity demanded (unit) | | | | | |
| Quantity supplied (unit) | | | | | |
| Surplus/shortage (unit) | | | | | |

- (c) Draw both equations in the same diagram on graph paper and indicate the equilibrium point as point E. **(5 marks)**
- (d) If the price of good X increases by 10 percent and the quantity decreases by 30 percent, what is the price elasticity of demand for the good? **(5 marks)**

[TOTAL: 20 marks]

Question 2

Refer to the figure below to answer the following questions.



- If the monopolist intends to maximise its profit, the equilibrium point is _____ **(5 marks)**
- The government needs to provide subsidies to the monopolist if the equilibrium level is achieved at _____ **(5 marks)**
- Which equilibrium point indicates that the monopolist is operating at full capacity? **(5 marks)**
- A monopolist always produces at allocative inefficiency level. However, if the firm were to achieve allocative efficiency, it will be at point _____. **(5 marks)**

[Total: 20 marks]

Question 3

- List and briefly explain three factors that will cause the demand curve for a good to shift to the left. **(10 marks)**
- List and briefly explain two factors that will cause the supply curve for a good to shift to the right. **(10 marks)**

[Total: 20 marks]

Question 4

In the year 2010, the economy produces 100 loaves of bread that sell for RM2 each. In the year 2011, the economy produces 200 loaves of bread that sell for RM3 each.

- a) Calculate nominal GDP, real GDP and the GDP deflator for each year (use 2010 as base year). **(10 marks)**
- b) What is the percentage change for each of these three statistics (nominal GDP, real GDP, and GDP deflator) from 2010 to 2011? **(10 marks)**

[Total: 20 marks]

Question 5

The national statistics department announced in April 2010 that of all adults, 139,455,000 were employed, 15,260,000 were unemployed, and 82,614,000 were not in the labour force. Use the information to calculate the following:

- a) labour force **(5 marks)**
- b) adult population **(5 marks)**
- c) labour force participation rate **(5 marks)**
- d) unemployment rate **(5 marks)**

[Total: 20 marks]

Question 6

- a) List and explain the three theories on why the short-run Aggregate Supply (AS) curve is upward sloping. **(10 marks)**
- b) Explain why the long-run Aggregate Supply (AS) curve is vertical. **(10 marks)**

[Total: 20 marks]

(End of Question Paper)