



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

PROFESSIONAL EXAMINATIONS

INTERMEDIATE LEVEL

ECONOMICS

DECEMBER 2016

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.
5. Answers should be written in either black or blue ink.
6. No question paper or answer booklet is to be removed from the examination hall.

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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. There is no deduction for wrong answers.

1. Microeconomics is the study of:
 - A. the behaviour of producers and consumers.
 - B. how individual households and firms make decisions.
 - C. how government influences the country's economy.
 - D. aggregated indicators such as gross domestic product and unemployment rate.

2. The price elasticity of demand measures the responsiveness of:
 - A. the quantity demanded to a change in income.
 - B. price to a change in demand.
 - C. demand to a change in supply.
 - D. quantity demanded to a change in price.

3. A legal maximum price that can be set in a given market is known as:
 - A. floor price.
 - B. price stabilization.
 - C. price support.
 - D. price ceiling.

4. Welfare economics primarily deals with:
 - A. how technology is used in the production of goods and services.
 - B. how the allocation of resources determines economic well-being.
 - C. government welfare programmes for poor people.
 - D. state programmes that deal with taxes and subsidies.

5. If Malaysia implements programmes such as progressive income tax rates, the country's:
 - A. equity and efficiency are both increased.
 - B. equity is decreased and efficiency is increased.
 - C. equity and efficiency are both decreased.
 - D. equity is increased and efficiency is decreased.

6. When the size of a tax increases, tax revenue:
 - A. definitely increases.
 - B. definitely decreases.
 - C. may increase, decrease, or stay the same.
 - D. definitely remains the same.

7. Externalities are the consequences of:
- A. a society's decisions on its well-being.
 - B. a person's actions on his well-being.
 - C. society's decisions on the poorest person in the society.
 - D. one individual's actions on the well-being of a third party.
8. A tax on the buyers of ice-cream:
- A. increases the size of the milk market.
 - B. has no effect on the size of the ice-cream market.
 - C. reduces the size of the ice-cream market.
 - D. may increase, decrease, or have no effect on the size of the milk market.
9. If a tax is imposed on the buyers of apples, the demand curve shifts:
- A. downward by the amount of the tax.
 - B. upward by the amount of the tax.
 - C. downward by less than the amount of the tax.
 - D. upward by more than the amount of the tax.
10. Which of the following is correct?
- A. Equity is more important than efficiency as the objective of the tax system.
 - B. Both equity and efficiency are important objectives of the tax system.
 - C. Neither equity nor efficiency is an important objective of the tax system.
 - D. Efficiency is more important than equity as an objective of the tax system.
11. The usual best single measure of a country's economic well-being is:
- A. the unemployment rate.
 - B. gross domestic product.
 - C. the inflation rate.
 - D. the balance of payments.
12. A country's unemployment rate is measured as the number of unemployed:
- A. divided by the number of people employed times 100.
 - B. divided by all people times 100.
 - C. divided by the labour force times 100.
 - D. times the participation rate times 100.

13. Changes in the quantity of money influence:
- A. rate of interest.
 - B. production.
 - C. prices.
 - D. All of the above are correct.
14. When the price level rises from 120 to 150, the inflation rate is:
- A. 40 per cent.
 - B. 30 per cent.
 - C. 20 per cent.
 - D. None of the above is correct.
15. When Malaysia imports \$200 million of goods and services and exports \$170 million of goods and services, the country's value of net exports is:
- A. \$370 million.
 - B. \$30 million.
 - C. -\$30 million.
 - D. None of the above is correct.
16. *Ceteris paribus*, a country's higher real interest rate raises the quantity of:
- A. domestic investment.
 - B. net capital outflow.
 - C. loanable funds supplied.
 - D. loanable funds demanded.
17. *Ceteris paribus*, the aggregate quantity of goods demanded in Malaysia increases if:
- A. the interest rate rises.
 - B. real wealth rises.
 - C. the dollar appreciates.
 - D. All of the above are correct.
18. The most liquid asset is:
- A. capital goods.
 - B. stocks and bonds with a low risk.
 - C. funds in a checking (current) account.
 - D. stocks and bonds with a high risk.

19. Malaysians will tend to hold more money when the price level in the country:
- A. increases or the interest rate decreases.
 - B. or the interest rate increases.
 - C. or the interest rate decreases.
 - D. decreases or the interest rate increases.
20. When Bank Negara Malaysia increases the money supply, in the short run, prices in Malaysia:
- A. fall and unemployment rises.
 - B. rise and unemployment falls.
 - C. and unemployment rise.
 - D. All of the above are correct.

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SECTION B: Structured Questions (Total: 80 marks)

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

Question 1

Shaun loves to play loud disco music. Megan loves opera and dislikes disco music. They are next door neighbours in an apartment building with very thin walls.

- (a) **Is there any externality? If yes, what is the externality here?** (5 marks)
- (b) **What command and control policy can the landlord impose? Could such a policy lead to an inefficient outcome?** (7 marks)
- (c) **Suppose the landlord lets the tenants do whatever they want. According to the Coase theorem, how can Shaun and Megan reach an efficient outcome on their own? What may prevent them from reaching an efficient outcome?** (8 marks)

[Total: 20 marks]

Question 2

- (a) **Comment on this statement: “Fishermen are not to be blamed for overfishing”. What policies can be considered to reduce overfishing?** (10 marks)
- (b) A community held together by obligation and mutual self-interest can manage a common resource on its own.

Explain how such management can work in principle and what obstacles it may face in the real world.

(10 marks)

[Total: 20 marks]

Question 3

- (a) **How and why does a firm's average total cost curve differ in the short run from the long run?** (6 marks)
- (b) **Define the term "economies of scale".** (3 marks)
- (c) **State the factors that influence the decline in the long-run average total cost.** (4 marks)
- (d) You are thinking about setting up a burger van stand. The van itself costs \$200. The ingredients for each burger cost \$0.50.
- (i) **What is your fixed cost of doing business? What is your variable cost per burger?** (4 marks)
- (ii) **Fill in the table showing your total cost, average total cost, and marginal cost for output levels varying from zero to 10 burgers.**

Quantity (burgers)	Total cost	Average total cost	Marginal cost
0			
1			
2			
3			
4			
5			
6			
7			
8			
9			
10			

(3 marks)

[Total: 20 marks]

Question 4

(a) Explain the following:

- (i) **Investment**
- (ii) **Public saving**
- (iii) **Private saving**
- (iv) **National saving**

(4 marks)

(b) (i) **What happens when the government runs a budget deficit?**

How does a budget deficit affect:

- (ii) **Interest rates**
- (iii) **Investment**
- (iv) **Economic growth**

(12 marks)

(c) For each of the following situations, explain whether it represents investment or saving:

- (i) **Your family takes out a mortgage to buy a new house in Semenyih.**
- (ii) **You use your RM2,000 pay cheque to buy shares in Proton.**
- (iii) **Your roommate earns RM5,000 from her job and deposits it in her CIMB Bank account.**
- (iv) **You borrow RM40,000 from Maybank to buy a car to use in your pizza delivery business.**

(4 marks)

[Total: 20 marks]

Question 5

- (a) The Department of Statistics in country Z announced in April 2016, that 139,455,000 adults in the country were employed, 15,260,000 were unemployed, and 82,614,000 were not in the labour force. Calculate the following:
- (i) **the labour force**
 - (ii) **the adult population**
 - (iii) **the labour force participation rate**
 - (iv) **the unemployment rate**
- (12 marks)
- (b) **What is meant by the natural rate of unemployment? Why could this rate differ across countries?**
- (8 marks)

[Total: 20 marks]

Question 6

- (a) **Define net export and net foreign investment. Explain how and why they are related.**
- (8 marks)
- (b) **Explain the relationship between saving, investment, and net foreign investment.**
- (5 marks)
- (c) **If a Japanese car costs ¥500,000 and a similar American car costs US\$10,000, assuming that a dollar can buy ¥100, what are the nominal and real exchange rates?**
- (7 marks)

[Total: 20 marks]

(END OF QUESTION PAPER)