



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

PROFESSIONAL EXAMINATIONS

INTERMEDIATE LEVEL

ECONOMICS

DECEMBER 2018

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. The primary focus of economics is on
 - A. resource allocation in the presence of scarcity.
 - B. monetary and financial gains.
 - C. economic development.
 - D. all of the above except "B" are correct

2. Given the level of existing production technology, when an economy produces two goods efficiently,
 - A. it is possible to produce more of the two goods without increasing the quantities of inputs that are used to produce the goods.
 - B. it is possible to produce more of one good without producing less of the other.
 - C. it is not possible to produce more of both goods.
 - D. it is impossible to produce more of one good without producing less of another good.

3.

Country	Hours needed to make one		Amount produced in 2400 hours	
	Computer	TV	Computers	TVs
Malaysia	30	150	80	16
Singapore	50	200	48	12

Refer to the table above. Malaysia has a comparative advantage in

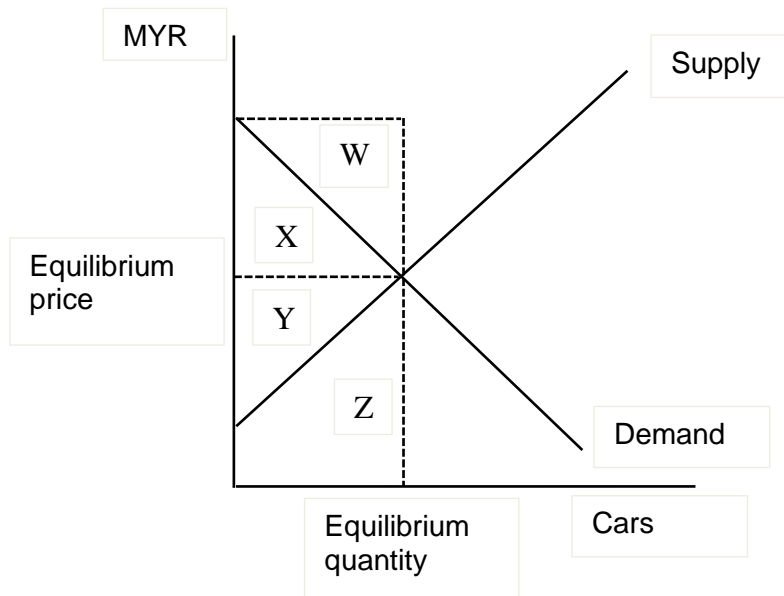
- A. TVs and Singapore has an absolute advantage in computers.
 - B. computers and Singapore has an absolute advantage in TVs.
 - C. computers and Singapore has an absolute advantage in neither goods.
 - D. TVs and Singapore has an absolute advantage in both goods.

4. Khadijah buys five watermelons per month when the price is MYR7.50 per watermelon and seven watermelons per month when the price is MYR4.90 per watermelon. Khadijah's purchases reflect
 - A. supply and demand conditions.
 - B. the law of supply.
 - C. the law of demand.
 - D. rational expectations.

5. A higher price for DVDs would lead to a (n)
 - A. increase in the demand for DVD players.
 - B. decrease in the demand for DVD players.
 - C. increase in the demand for DVDs.
 - D. decrease in the demand for DVDs.

6. When a country levies tax on its rice market, which has inelastic demand and elastic supply, the country's
- A. buyers will bear most of the tax incidence.
 - B. sellers will bear most of the tax incidence.
 - C. buyers and sellers will bear the tax incidence equally.
 - D. economists cannot estimate the tax incidence between buyers and sellers.

7.



Refer to the figure above. When the car market's price and quantity are in equilibrium, the area that represents consumer surplus is ____.

- A. W
 - B. X
 - C. Y
 - D. X+Y
8. When goods are rivalled in consumption but not excludable, we categorize them as
- A. toll goods.
 - B. common resources.
 - C. public goods.
 - D. private goods.

9.

Total Output (units)	Total Cost (\$)
0	40
10	60
20	90
30	130
40	180
50	240

Refer to the table above. When output is 40 units, the average fixed cost is

- A. \$1.00
 - B. \$3.32
 - C. \$4.00
 - D. \$4.8
10. When marginal product falls as the number of inputs increases, the following property becomes evident
- A. diminishing marginal product.
 - B. utility maximization.
 - C. supply and demand.
 - D. input-output theory.
11. When Malaysia calculates its gross domestic product (GDP), the country has the following possible sets of spending components. Which set will be categorized as investment?
- A. stocks, bonds and real estate
 - B. real estate and monetary inflows
 - C. new capital equipment, inventories and structures, including newly built houses
 - D. capital equipment, inventories and structures, excluding newly built houses
12. A country has a consumer price index (CPI) of 128.96 in 2017 and estimates inflation rate between 2016 and 2017 as 24 per cent. Which of the following was the CPI in 2016?
- A. 105.00.
 - B. 104.00.
 - C. 104.96.
 - D. 106.67.
13. Suppose a country finds that diesel is an inexpensive alternative to propane for mint distillation. The price of propane
- A. would decline as the diesel would reduce the supply of propane.
 - B. would decline as the diesel would reduce the demand for propane.
 - C. would increase as the diesel would increase the demand for propane.
 - D. would increase as the diesel would increase the supply of propane.
14. The four major expenditure components of gross domestic product (GDP) are
- A. consumption, investment, depreciation, net imports.
 - B. consumption, saving, investment, appreciation.
 - C. consumption, government purchases, investment, savings.
 - D. consumption, government purchases, investment, net exports.

15. A country's monetary policy influences the country's employment
- A. only in the long run.
 - B. only in the short run.
 - C. in both the long run and the short run.
 - D. in neither the long run nor the short run.
16. If people in Japan prefer holding more currency compared to deposits, *ceteris paribus*, the money supply
- A. would remain the same.
 - B. would fall.
 - C. would rise.
 - D. there is not enough information to make a conclusion.
17. When the price level as measured by the consumer price index (CPI) increases from 120 to 150, the inflation rate is
- A. 12.5 per cent
 - B. 25 per cent
 - C. 20 per cent
 - D. None of the above is correct.
18. Suppose Singapore has negative net exports in 2014. In 2015, the country still experiences negative net exports, while imports have increased more than exports. We can conclude that in 2015, the country has
- A. a decreased trade surplus.
 - B. an increased trade surplus.
 - C. a decreased trade deficit.
 - D. an increased trade deficit.
19. All other things held constant in Japan, a fall in the price level leads real wealth to
- A. fall, interest rates to fall, and the yen to appreciate.
 - B. fall, interest rates to rise, and the yen to depreciate.
 - C. rise, interest rates to rise, and the yen to appreciate.
 - D. rise, interest rates to fall, and the yen to depreciate.
20. As the liquidity preference theory holds, the money supply curve is
- A. vertical.
 - B. upward sloping.
 - C. downward sloping.
 - D. horizontal.

SECTION B: Structured Questions (Total: 80 marks)

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

Question 1

- (a) What is meant by a negative externality? Provide an example. (4 marks)
- (b) Draw a diagram to show a negative production externality. Does an industry exhibiting a negative externality overproduce? Show this clearly in your diagram. (6 marks)
- (c) Discuss how various government interventions can be used to solve the problem of externalities. (10 marks)

[Total: 20 marks]

Question 2

A company, Alisan, markets an innovative two-step carpet cleaning process. As leftover carpet cleaning solutions can act as a magnet for dirt, Alisan's exclusive two-step carpet cleaning system includes a specially formulated pH-balancing fiber rinse that removes carpet cleaning solution residue along with deep-down dirt. According to Alisan, all that's left behind is a cleaner, softer and more beautiful carpet.

- (a) Assume that the following table shows relevant information for Alisan's business in a medium-sized metropolitan area. Fill in the missing values in the table.

Square Meters Output	Price (\$)	Total Revenue	Marginal Revenue	Total Cost (\$)	Marginal Cost (\$)
0	30			0	
1000	28			26000	
2000	26			48000	
3000	24			68000	
4000	22			88000	
5000	20			100000	

(4 marks)

- (b) What are the characteristics of a monopolistically competitive market? (6 marks)
- (c) What is the profit-maximizing output level in a monopolistic competition industry? (4 marks)
- (d) What is the output, price and profit for this product in the long run if a monopolistically competitive equilibrium exists following the successful introduction of competitors' services? (Assume similar costs conditions for each firm.) (6 marks)

[Total: 20 marks]

Question 3

- (a) Explain what is the money multiplier? (4 marks)
- (b) If the commercial banks gain deposits of RM1 million and this leads to a change in the money supply by RM10 million, compute the money multiplier. (5 marks)
- (c) Explain what is the reserve ratio? (3 marks)
- (d) If you have a reserve ratio of 5 per cent, what is the value of the money multiplier? If you have deposits of RM1 million and a reserve ratio of 5 per cent, how much can the bank effectively lend out? (5 marks)
- (e) What does it indicate if the central bank imposes a higher required reserve ratio? (3 marks)

[Total: 20 marks]

Question 4

- (a) Explain what is absolute advantage and comparative advantage. (4 marks)
- (b) Suppose there are two countries producing two goods - iron ore and cars. In the table below, China can produce 80 units of iron ore or 100 units of cars, while the United States can produce 70 units of iron ore or 50 units of cars. **Based on the information, answer the following questions:**

Country	Iron ore	Cars
China	80	100
United States	70	50

- (i) Which country has an absolute advantage in producing iron ore? Which country has an absolute advantage in producing cars? Explain. (4 marks)
- (ii) What is China's opportunity cost of producing one unit of iron ore; and what is the United States' opportunity cost of producing one unit of iron ore? (4 marks)
- (iii) What is China's opportunity cost of producing one unit of car; and what is the United States' opportunity cost of producing one unit of car? (4 marks)
- (iv) Which country has a comparative advantage in producing cars? Explain. (4 marks)

[Total: 20 marks]

Question 5

(a) Why is the aggregate demand (AD) curve downward-sloping? Explain using the three effects.

(12 marks)

(b) An alcopops is a bitter pre-mixed herbal drink. Consider the following policies, each of which is aimed at reducing the amount of alcopops consumed by people. Illustrate each of these proposed policies using the aggregate supply and aggregate demand curves of the alcopops market. Explain the outcomes on price and quantity following each of the three conditions below;

(i) A tax on alcopops buyers

(2.5 marks)

(ii) A tax on alcopops sellers

(2.5 marks)

(iii) A binding floor price on alcopops

(3 marks)

[Total: 20 marks]

Question 6

(a) Vietnam represents a small part of the global orange market. Draw a diagram depicting the equilibrium in the Vietnamese orange market without international trade. Identify the equilibrium price, equilibrium quantity, consumer surplus, and producer surplus.

(3 marks)

(b) Suppose that the global orange price is below the Vietnamese price before trade and that the Vietnamese orange market is now open to trade. Using a diagram, show the new equilibrium price, quantity consumed, quantity produced domestically, and quantity imported. Show also the change in the surplus of domestic consumers and producers. Has total surplus increased or decreased?

(Use the table below to show the changes before and after trade.)

	Before Trade	After trade	Change
Consumer Surplus			
Producer Surplus			
Total Surplus			

(7 marks)

- (c) Assume that the government imposes a tariff on orange imports. What is the change in consumer surplus, producer surplus and the total surplus? Does this policy create deadweight loss? Show this imposition of tariff in a new diagram and identify the changes.

(Use the table below to show the changes before and after tariff.)

	Before Tariff	After tariff	Change
Consumer Surplus			
Producer Surplus			
Government revenue			
Total Surplus			(10 marks)

(10 marks)

[Total: 20 marks]

(END OF QUESTION PAPER)