



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

PROFESSIONAL EXAMINATIONS

INTERMEDIATE LEVEL

ECONOMICS

DECEMBER 2015

Student
Registration 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.

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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.

Microeconomics

1. Economics deals primarily with the concept of
 - A. power.
 - B. poverty.
 - C. economic change.
 - D. scarcity.

2. Economics is the study of
 - A. production methods.
 - B. how society manages its scarce resources.
 - C. how households decide who performs which tasks.
 - D. the interaction of business and government.

3. A marginal change is a
 - A. change that involves little, if anything, that is important.
 - B. large, significant adjustment.
 - C. change for the worse, and so it is usually a short-term change.
 - D. small, incremental adjustment.

4. One thing economists do to help them understand how the real world works is as follows:
 - A. They make assumptions.
 - B. They ignore the past.
 - C. They try to capture every aspect of the real world in the models they construct.
 - D. All of the above are correct.

5. When a tax is levied on a good,
 - A. neither buyers nor sellers are made worse off.
 - B. only sellers are made worse off.
 - C. only buyers are made worse off.
 - D. both buyers and sellers are made worse off.

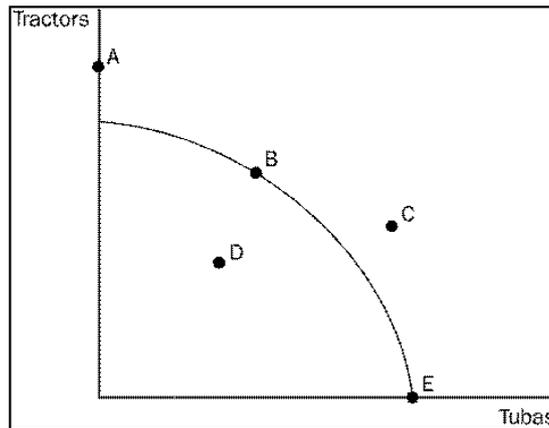


Figure 1

6. Refer to Figure 1. The economy has the ability to produce at which point or points?
- B, D, E
 - A, B, D, E
 - D, C
 - D
7. Refer to Figure 1. Which point represents the situation in which the economy is producing its maximum possible quantity of tubas?
- A
 - B
 - D
 - E
8. Externalities are
- side effects passed on to a party other than the buyers and sellers in the market.
 - side effects of government intervention in markets.
 - external forces that cause the price of a good to be higher than it otherwise would be.
 - external forces that help establish equilibrium price.
9. The forces that make a market economy work are
- work and leisure.
 - demand and supply.
 - regulation and restraint.
 - taxes and government spending.
10. Which of the following statements is correct concerning the burden of a tax imposed on candles?
- Buyers bear the entire burden of the tax.
 - Sellers bear the entire burden of the tax.
 - Buyers and sellers share the burden of the tax.
 - We have to know whether it is the buyers or the sellers that are required to pay the tax to the government in order to make this determination.

Macroeconomics

11. If a country had deflation,
- A. the nominal interest rate would be greater than the real interest rate.
 - B. the real interest rate would be greater than the nominal interest rate.
 - C. the real interest rate would equal the nominal interest rate.
 - D. None of the above is necessarily correct.
12. Suppose that a country imports \$100 million of goods and services and exports \$75 million of goods and services, what is the value of its net exports?
- A. \$175 million
 - B. \$75 million
 - C. \$25 million
 - D. -\$25 million
13. The nominal exchange rate is the
- A. nominal interest rate in one country divided by the nominal interest rate in the other country.
 - B. rate at which a person can trade the currency of one country for the currency of another.
 - C. price of a good in one country divided by the price of the same good in another.
 - D. the number of goods a person can trade for a similar good in another country.
14. During a recession the economy experiences
- A. rising employment and income.
 - B. rising employment and falling income.
 - C. rising income and falling employment.
 - D. falling employment and income.
15. The model of aggregate demand and aggregate supply explains the relationship between
- A. the price and quantity of a particular good.
 - B. unemployment and output.
 - C. wages and employment.
 - D. real GDP and the price level.
16. Suppose the economy is in long-run equilibrium. If there is a tax cut at the same time that major new sources of oil are discovered in the country, then in the short run we would expect
- A. real GDP will rise and the price level may rise, fall, or stay the same.
 - B. real GDP will fall and the price level may rise, fall, or stay the same.
 - C. the price level will rise, and real GDP may rise, fall, or stay the same.
 - D. the price level will fall, and real GDP may rise, fall, or stay the same.

17. According to the liquidity preference theory, the money supply curve is
- A. upward sloping.
 - B. downward sloping.
 - C. vertical.
 - D. horizontal.
18. Which of the following shifts money demand to the left?
- A. an increase in the price level
 - B. a decrease in the price level
 - C. an increase in the interest rate
 - D. a decrease in the interest rate
19. Fiscal policy refers to the idea that aggregate demand is changed by changes in
- A. the money supply.
 - B. government spending and taxes.
 - C. trade policy.
 - D. All of the above are correct.
20. A decrease in the tax rate is more likely to increase national savings if
- A. the income effect of a change in the interest rate is small and an increase in private savings tends to have a small impact on the capital stock.
 - B. the income effect of a change in the interest rate is small and an increase in private savings tends to have a large impact on the capital stock.
 - C. the income effect of a change in the interest rate is large and an increase in private savings tends to have a small impact on the capital stock.
 - D. the income effect of a change in the interest rate is large and an increase in private savings tends to have a large impact on the capital stock.

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SECTION B: Structured Questions (Total: 80 marks)

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

Question 1

(a) Classify each of the following externalities as one of the following: positive consumption, negative consumption, positive production, or negative production. Briefly explain your answer.

(i) Lawn mowing while your neighbour is having a family gathering next door.

(ii) Exhaust from cars.

(iii) Research into new technologies.

(iv) Education.

(v) Mining company builds a road that local farmers can use.

(10 marks)

(b) Classify each of the following as public good, private good or common resource. Briefly explain your answer.

(i) Tolled roads during periods of heavy traffic.

(ii) Street lighting.

(iii) Your economics textbook.

(iv) Fish in the ocean.

(v) Facebook.

(10 marks)

[Total : 20 marks]

Question 2

- (a) Explain four key differences between perfect competition and a monopoly. (8 marks)
- (b) Explain and illustrate why monopolies are regarded as inefficient in terms of social welfare. Label your diagram clearly. (12 marks)

[Total : 20 marks]

Question 3

Sparkle is one of many firms in the market for toothpaste, which is in long-run equilibrium

- (a) Draw a diagram showing Sparkle's demand curve, marginal-revenue curve, average total cost curve, and marginal-cost curve. Label Sparkle's profit-maximizing output and price. (10 marks)
- (b) What is Sparkle's profit? Explain. (6 marks)
- (c) On your diagram, show the consumer surplus derived from the purchase of Sparkle toothpaste. Also show the deadweight loss relative to the efficient level of output. (4 marks)

[Total : 20 marks]

Question 4

Explain how may fiscal policy be used to increase the equilibrium level of real GDP while reducing the impact on inflation? Use the aggregate demand–aggregate supply model as the framework for your answer. (Diagram is not needed).

[Total : 20 marks]

Question 5

The Statistics Bureau of a country reported the following data:

CPI in September 2012: 155.7

CPI in September 2013: 158.6

CPI in September 2014: 166.5

- (a) **What do these numbers tell you about the price level in these three years?** (4 marks)
- (b) **Calculate the inflation rates for the years ending September 2013 and September 2014. How did the inflation rate change in 2014?** (8 marks)
- (c) **Why might these CPI numbers be biased?** (8 marks)

[Total : 20 marks]

Question 6

- (a) **List five factors that may influence a country's exports, imports and trade balance.** (10 marks)
- (b) **Explain why net exports and net capital outflows always equal.** (10 marks)

[Total : 20 marks]

(END OF QUESTION PAPER)