



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

PROFESSIONAL EXAMINATIONS

INTERMEDIATE LEVEL

ECONOMICS

JUNE 2015

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| Student Reg. No | <input type="text"/> | Date | <input type="text"/> |
| Desk no | <input type="text"/> | Examination centre | <input type="text"/> |

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. The dominant reason why households face many decisions is that

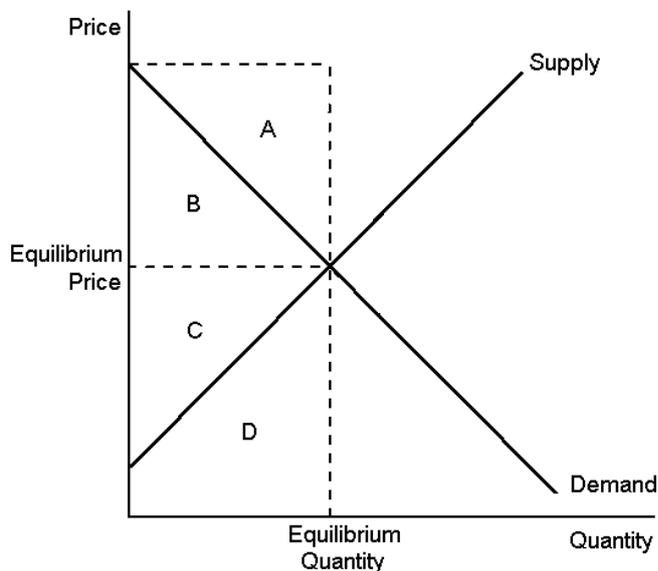
- A. resources are scarce.
- B. goods and services are not scarce.
- C. incomes fluctuate with business cycles.
- D. people, by nature, tend to disagree.

2. The value of the next-best alternative is called

- A. opportunity cost.
- B. explicit cost.
- C. true cost.
- D. direct cos.

3. A demand curve shows the relationship

- A. between income and quantity demanded.
- B. between price and income.
- C. between price and quantity demanded.
- D. among income, price, and quantity demanded.



Graph 1: Supply and Demand in a Free Market

4. According to Graph 1, if the market is in equilibrium, consumer surplus is represented by area:
- A. A
 - B. B
 - C. C
 - D. D
5. According to Graph 1, when the market is in equilibrium, producer surplus is represented by area:
- A. A
 - B. B
 - C. C
 - D. D
6. If Shawn can produce apples at a lower opportunity cost than Sue, then which of the following is definitely true?
- A. Shawn has a comparative advantage in the production of apples.
 - B. Sue has a comparative advantage in the production of apples.
 - C. Shawn should not produce apples.
 - D. Shawn is capable of producing more apples than Sue in a given amount of time.
7. For each good produced in a free market, the interaction of demand and supply determines
- A. the price of the good, but not the quantity.
 - B. the quantity of the good, but not the price.
 - C. both the price of the good and the quantity of the good.
 - D. neither price nor quantity, because prices and quantities are determined by the sellers of the good alone.
8. When demand is inelastic,
- A. buyers do not respond much to a change in price.
 - B. buyers respond substantially to a change in price, but the response is very slow.
 - C. buyers do not alter their quantities demanded much in response to advertising, fads or general changes in tastes.
 - D. the demand curve is very flat.
9. Which of the following is a cost of taxes to the taxpayer?
- A. The tax itself
 - B. Deadweight losses
 - C. Administrative burdens
 - D. All of the above

10. Which of the following is a tax system in which higher income taxpayers pay a smaller fraction of their income, although they pay a larger amount of tax than lower income taxpayers?
- A. A proportional tax system
 - B. A progressive tax system
 - C. A regressive tax system
 - D. None of the above
11. Which of the following shifts aggregate demand to the right?
- A. An increase in the price level
 - B. An increase in the money supply
 - C. A decrease in the price level
 - D. A decrease in the money supply
12. Fiscal policy refers to the idea that aggregate demand is changed by changes in
- A. the money supply.
 - B. trade policy.
 - C. government spending and taxes.
 - D. all of the above are correct.
13. Which of the following correctly explains the crowding-out effect?
- A. An increase in government expenditures decreases the interest rate and so increases investment spending.
 - B. An increase in government expenditures increases the interest rate and so reduces investment spending.
 - C. A decrease in government expenditures increases the interest rate and so increases investment spending.
 - D. A decrease in government expenditures decreases the interest rate and so reduces investment spending.
14. If households view a tax cut as temporary, the tax cut
- A. has no effect on aggregate demand.
 - B. has more of an effect on aggregate demand than if households view it as permanent.
 - C. has the same effect as when households view the cut as permanent.
 - D. has less of an effect on aggregate demand than if households view it as permanent.
15. If policymakers reduce aggregate demand, the price level
- A. falls but unemployment rises.
 - B. and unemployment falls.
 - C. and unemployment rises.
 - D. rises but unemployment falls.

16. If the minimum wage increased, then at any given rate of inflation
- A. both output and employment would be higher.
 - B. neither output nor employment would be higher.
 - C. output would be higher and unemployment would be lower.
 - D. output would be lower and unemployment would be higher.
17. Which of the following statistics is usually regarded as the best single measure of a society's economic well-being?
- A. The unemployment rate
 - B. The inflation rate
 - C. Gross domestic product
 - D. The trade deficit
18. For an economy as a whole,
- A. wages must equal profit.
 - B. consumption must equal saving.
 - C. income must equal expenditure.
 - D. household spending on goods must equal household spending on services.
19. If real GDP doubles and the GDP deflator doubles, then nominal GDP
- A. remains constant.
 - B. doubles.
 - C. triples.
 - D. quadruples.
20. The Federal Reserve _____.
- A. designs tax policy
 - B. enforces the nation's antitrust laws
 - C. sets the nation's monetary policy
 - D. analyzes data on workers

SECTION B: Structured Questions (Total: 80 marks)

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

Question 1

- (a) A college in Malaysia raises its annual tuition fees from RM2,000 to RM2,500. Its student enrollment falls from 4,877 to 4,705.

Compute the price elasticity of demand. Is demand elastic or inelastic?

(5 marks)

- (b) **Explain what are inelastic demand, elastic demand and unit elastic. How can a seller determine whether the demand for his good is inelastic, elastic, or unit elastic between two prices?**

Use suitable diagrams to illustrate your answer.

(10 marks)

- (c) **Would the price elasticity of demand for electricity be more elastic over a shorter or longer period of time?**

(5 marks)

[Total: 20 marks]

Question 2

- (a) **Compare a pure monopolist and perfectly competitive firm, assuming they have the same unit costs, with respect to (i) price, (ii) output, (iii) profits, (iv) allocative efficiency, and (v) productive efficiency.**

(5 marks)

- (b) **A monopoly firm will always earn supernormal profit in the long run but not always in the short run. Draw three diagrams showing supernormal profit, normal profit and loss. Explain the diagrams in detail.**

(15 marks)

[Total: 20 marks]

Question 3

Given the following information about marginal utility, a consumer has a choice between two goods, X and Y.

If the price of X is \$2 per unit and the price of Y is \$3 per unit, how many units of X and Y will the consumer purchase, given an income of \$17?

Show your calculations in the answer.

[Total: 20 marks]

| <u>Units</u> | <u>MU_x</u> | <u>MU_y</u> |
|--------------|-----------------------|-----------------------|
| 1 | 10 | 5 |
| 2 | 8 | 4 |
| 3 | 2 | 3 |
| 4 | 2 | 2 |
| 5 | 1 | 2 |

Question 4

- (a) Assume that there is trade between the United States (US) and Malaysia, and there is a floating exchange rate regime.

With the use of a diagram, explain what would happen in the case of an excess supply of Ringgit Malaysia (RM).

(6 marks)

- (b) Assume there are two countries in the global economy – the United States (US) and Mexico. The currency for the US is dollar while for Mexico it is the peso.

Using the diagram above, explain the effect on the demand and supply of pesos if there is an increase in the price level in the US

(14 marks)

[Total: 20 marks]

Question 5

- (a) Give five examples of events that would shift the aggregate demand curve to the right.

(5 marks)

- (b) Explain who makes up a country's labour force and what "labour force participation rate" is.

Refer to the blank entries in the table and write your answers for [Qi], [Qii] and [Qiii] in the answer booklet.

All values are in thousands. Show all your calculations and formula.

| Country | Adult Population | Labour force | Employed | Unemployed | Unemployment rate | Labour force participation rate |
|---------|------------------|--------------|----------|------------|-------------------|---------------------------------|
| X | [Qi] | 26,870 | [Qii] | 2,577 | [Qiii] | 57.41 |

(15 marks)

[Total: 20 marks]

Question 6

- (a) Explain how an open market purchase by the central bank increases the money supply.

(5 marks)

- (b) Explain how lowering the discount rate increases the money supply.

(5 marks)

- (c) Explain how an increase in the price level changes interest rates. How does this change in interest rates lead to changes in investment and net exports?

(10 marks)

[Total: 20 marks]