

QUESTION 1

Consider the following Monetary Policy Statement issued by Bank Negara Malaysia on 5 September 2024:

At its meeting today, the Monetary Policy Committee (MPC) of Bank Negara Malaysia decided to maintain the Overnight Policy Rate (OPR) at 3%. The global economy continues to expand amid resilient labour markets and continued recovery in global trade. Looking ahead, global growth is expected to be sustained by positive labour market conditions, moderating inflation and less restrictive monetary policy. Global trade recovery is expected to continue, supported by both electrical and electronics (E&E) as well as non-E&E products. The growth outlook remains subject to downside risks, mainly from further escalation of geopolitical tensions, volatility in global financial markets, and slower growth momentum in major economies.

The Malaysian economy expanded by 5.1% in the first half of 2024. The latest indicators point towards sustained strength in economic activity driven by resilient domestic expenditure and higher export activity. Going forward, exports are expected to be further lifted by the global tech upcycle given Malaysia's position in the semiconductor supply chain, as well as continued strength in non-E&E goods. Tourist spending is expected to continue to increase. Employment and wage growth, as well as policy measures, remaining supportive of household spending. The robust expansion in investment activity would be sustained by the progress of multi-year projects in both the private and public sectors, the implementation of catalytic initiatives under the national master plans, as well as the higher realisation of approved investments. The higher intermediate and capital imports will further support export and investment activity. The growth outlook is subject to downside risks from lower-than-expected external demand and commodity production. Meanwhile, upside risks to growth mainly emanate from greater spillover from the tech upcycle, more robust tourism activity, and faster implementation of investment projects.

Both headline and core inflation averaged 1.8% in the first half of 2024. The spillovers from the diesel price adjustment to broader prices have been contained, given effective mitigation and enforcement measures to minimise the cost impact on businesses. For the year as a whole, average headline and core inflation are expected to remain within the earlier projected ranges and are unlikely to exceed 3%. Nevertheless, the inflation outlook remains highly subject to the implementation of further domestic policy measures. Upside risk to inflation would be dependent on the extent of spillover effects of domestic policy measures on subsidies and price controls to broader price trends, as well as global commodity prices and financial market developments. The recent recovery in the ringgit is driven by the shift in expectations of lower interest rates in major economies, particularly the US, as well as Malaysia's strong economic performance. Looking ahead, Malaysia's positive economic prospects and domestic structural reforms, complemented by ongoing initiatives to encourage flows, will continue to provide enduring support to the ringgit.

At the current OPR level, the monetary policy stance remains supportive of the economy and is consistent with the current assessment of inflation and growth prospects. The MPC remains vigilant to ongoing developments to inform the assessment on the domestic inflation and growth trajectories going into 2025. The MPC will ensure that the monetary policy stance remains conducive to sustainable economic growth amid price stability.

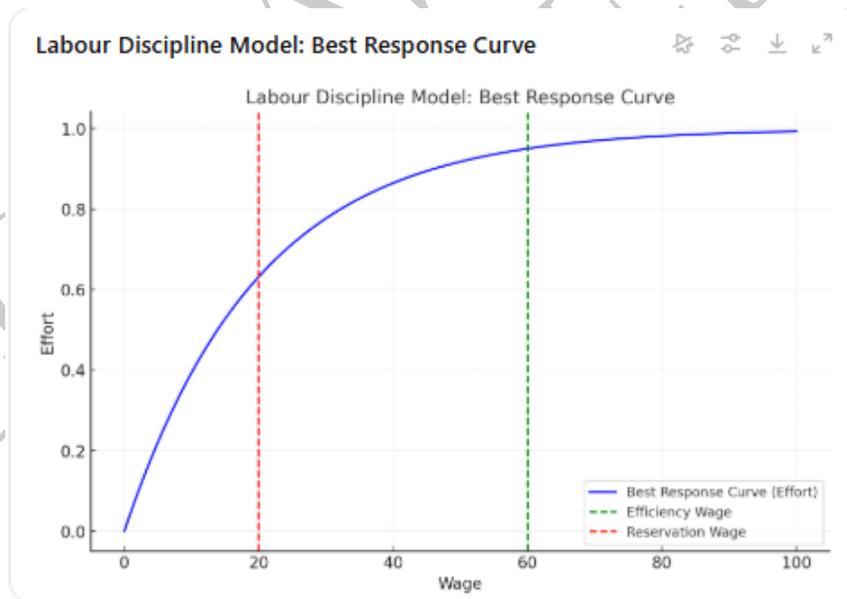
- (a) Please elaborate on the impact of increasing the OPR to the household and private firms. [10 marks]
- (b) Please elaborate on the impact of removing the diesel/petrol subsidies to the inflation and suggest policy recommendations to manage the inflation rate post implementation. [15 marks]
- (c) Explain the difference between “Headline inflation” vs “Core inflation” and why deflation can be harmful to the economy. [5 marks]

QUESTION 2

One of the potential issues identified in the procurement process in a corporate entity is that the bidder tends to underprice their goods/services with the hope that it will increase the probability of the tenderer being selected. This situation is sometimes referred to as the “winner’s curse”. In some cases, due to the extremely low price offered, the quality of the deliverables are not as per the expectation of the tenderer. Please suggest measures that can be taken by the tenderer to avoid such scenario.

[30 marks]

QUESTION 3



Referring to the above chart:

- (a) Please explain what does “Best Response Curve”, “Reservation Wage” and “Efficiency Wage” indicate. [20 marks]
- (b) Please suggest on measures for any firm to move towards the “Efficiency Wage”. [10 marks]

QUESTION 4

There are many pricing strategies can be adopted by a firm, depending on the nature of the industry and the product/services offered. Please elaborate on how a firm can use the concept of price elasticity of demand, cost structures and market power to determine the most appropriate pricing strategy. You may choose a particular industry e.g. aviation, education, manufacturing as an example to support your answers.

[30 marks]

MYEO PAST YEAR PAPER

END OF QUESTION PAPER