



INTERNATIONAL
ECONOMICS
OLYMPIAD

MYEO 

MALAYSIAN ECONOMICS OLYMPIAD (MyEO) 2023

Saturday, 28 January 2023

PAPER 2 : 12.30 PM - 3.00 PM
(2 hours 30 minutes)

All The Best!

Please answer all open questions

Question 1:

Consider the following Monetary Policy Statement issued by Bank Negara Malaysia on 8 September 2022:

At its meeting today, the Monetary Policy Committee (MPC) of Bank Negara Malaysia decided to increase the Overnight Policy Rate (OPR) by 25 basis points to 2.50 percent. The ceiling and floor rates of the corridor of the OPR are correspondingly increased to 2.75 percent and 2.25 percent, respectively.

The global economy continued to expand, albeit at a slower pace, weighed down by rising cost pressures, tighter global financial conditions, and strict containment measures in China. However, global growth continues to be supported by improvements in labour market conditions, and the full reopening of most economies and international borders. Inflationary pressures have remained high, due to elevated commodity prices and tight labour markets, despite continued easing in global supply chain conditions. Consequently, central banks are expected to continue adjusting their monetary policy settings, some at a faster pace, to reduce inflationary pressures. In particular, aggressive adjustments in US interest rates have contributed to a strong US dollar environment. This has resulted in higher volatility in financial markets, affecting other major and emerging market currencies, including the ringgit. Going forward, the global growth is expected to face challenges from the impact of monetary policy tightening in most economies, and pandemic management measures in China. The growth outlook is subject to downside risks, including elevated cost pressures, the potential energy crisis in Europe, and sharp tightening in financial market conditions.

For the Malaysian economy, the transition to endemicity and policy measures have contributed to the stronger growth performance in the second quarter of 2022. Going forward, indicators point to continued growth, underpinned by support from private sector spending. Labour market conditions and income prospects remain positive, with unemployment and underemployment declining further. The reopening of international borders will lift tourism-related sectors. Investment activity and prospects would be supported by the realisation of multi-year projects. Nevertheless, external demand is expected to moderate following softening global growth. Despite the increased volatility in the global financial and foreign exchange markets, these developments are not expected to derail Malaysia's growth. Domestic liquidity remains sufficient, with continued orderly functioning of the financial and foreign exchange markets. Financial institutions also continue to operate with strong capital and liquidity buffers. These will ensure financial intermediation remains supportive of the economy. Going forward, downside risks to the domestic economy continue to stem from a weaker-than-expected global growth, further escalation of geopolitical conflicts, and worsening supply chain disruptions.

Year-to-date, headline inflation has averaged at 2.8%. Headline inflation is projected to peak in 3Q 2022 before moderating thereafter, due to dissipating base effects and in line with the

expected easing of global commodity prices. Underlying inflation, as measured by core inflation, is expected to average closer to the upper end of the 2.0% - 3.0% forecast range in 2022, with some signs of demand-driven pressures amid the high-cost environment. The extent of upward pressures to inflation will remain partly contained by existing price controls, fuel subsidies, and the prevailing spare capacity in the economy. The inflation outlook, however, continues to be subject to domestic policy measures, as well as global commodity price developments arising mainly from the ongoing military conflict in Ukraine and prolonged supply-related disruptions.

With the positive growth prospects for the Malaysian economy remaining intact, the MPC decided to further adjust the degree of monetary accommodation. At the current OPR level, the stance of monetary policy continues to remain accommodative and supportive of economic growth. The MPC is not on any pre-set course and will continue to assess evolving conditions and their implications on the overall outlook to domestic inflation and growth. Any adjustments to the monetary policy settings going forward would be done in a measured and gradual manner, ensuring that monetary policy remains accommodative to support a sustainable economic growth in an environment of price stability.

1(a) Explain the difference between monetary policy and fiscal policy **(4 points)**

1(b) Based on the above Monetary Policy Statement, explain the transmission of international economic conditions to the Malaysian economy **(20 points)**

1(c) Explain the difference between “Headline inflation” vs “Core inflation” and why deflation can be harmful to the economy **(6 points)**

Question 2:

2(a) Explain and elaborate (i) progressive tax, (ii) regressive tax and (iii) proportional tax. **(15 points)**

2(b) Explain the mechanism for each type of taxation, its target group and example of the tax imposed in Malaysia. **(15 points)**

Question 3:

In certain industry such as telecommunications, the government open bid to industry player to provide the service to the public. From government perspective, the highest bidder should be the most preferred service provider, however this would sometime lead to situation called 'winner's curse'.

3(a) Please explain the meaning of 'Winner's curse' **(5 points)**

3(b) Using Mechanism Design, please elaborate on potential bidding process/approach that can be deployed by the government to select the best bidder. **(25 points)**

Question 4:

The lockdown policy to curb Covid-19 implemented by Governments across the world is very much needed to ensure public health is well protected. However, this lead to many repercussion to the economic activities.

4(a) Despite many people lost their employment during the pandemic, the inflation rate increased substantially in several countries. Please explain why such situation occurs. **(10 points)**

4(b) Please suggest the possible monetary policy and fiscal policy that can be implemented to recover the economy post pandemic. Different policies may be implemented to different target group, spanning across different time frame. **(20 points)**

- End of Questions -