MATRICULATION AND SECONDARY EDUCATION CERTIFICATE EXAMINATIONS BOARD

UNIVERSITY OF MALTA, MSIDA

MATRICULATION EXAMINATION
ADVANCED LEVEL
SEPTEMBER 2013

SUBJECT:	ECONOMICS
PAPER NUMBER:	I
DATE:	3rd September 2013
TIME:	9.00 a.m. to 12.00 noon

Answer **FOUR** questions. **TWO** from **each** Section. All questions carry equal marks. This paper carries 60% of the global mark.

Section A

1. a) Discuss three factors that can influence the demand for sun protection cream. (9 marks)
   b) Discuss three factors that can influence the supply of sun protection cream. (9 marks)
   c) Evaluate the possible impact of new medical research which confirms that increased sun exposure leads to early ageing of the skin. (7 marks)

2. a) What is the concept of marginal utility used for? (7 marks)
   b) Using a graph, show the budget line of a household when faced with a choice of two goods, A and B. (8 marks)
   c) If the income of a household increases what is the effect on consumption choices? Use a graph to explain this change. (10 marks)

3. a) What does the price elasticity of supply measure? (6 marks)
   b) Use examples to distinguish between price elasticity of demand, cross elasticity of demand and income elasticity of demand. (9 marks)
   c) Using an example for each, discuss the effect of minimum floors and maximum ceilings on demand and supply. Illustrate using a graph. (10 marks)

4. a) Define the concept of marginality. Using a numerical example explain how marginal cost is derived? (8 marks)
   b) Use a graph to explain why a cost curve is U shaped in the short run. (8 marks)
   c) Use a graph to distinguish between economies and diseconomies of scale. (9 marks)

5. a) List five disadvantages of a monopoly for consumers. (5 marks)
   b) Distinguish between two types of imperfect competition. (8 marks)
   c) Use one graph to explain the difference between profit maximisation under monopoly and under perfect competition. (12 marks)

6. a) Explain the term 'market failure' and use two examples. (8 marks)
   b) What are public goods and what is the justification for them? (6 marks)
   c) Externalities, or third-part effects, may be both negative and positive. Give examples of both and discuss how governments try to decrease one and increase the other. (11 marks)

Section B

7. a) How does a country measure the national income? Is all activity included in this
      measurement? (8 marks)
   b) What is the difference between nominal and real GDP? Which one is used for comparative
      reasons and why? (6 marks)
   c) By means of a graph show the circular flow of income in an open economy and discuss the
      different flows in and out of it. (11 marks)

8. a) What is inflation and how is it measured? (8 marks)
   b) Discuss the difference in the impact on decisions with anticipated and unanticipated inflation.
      (8 marks)
   c) How do governments try to influence the inflationary process? (9 marks)

9. a) Discuss two types of unemployment. (6 marks)
   b) What are the costs to society associated with high unemployment? (8 marks)
   c) What type of policies can governments adopt to encourage more people to become
      employed? Discuss. (11 marks)

10. a) What is the difference between a government budget deficit and government debt? (6 marks)
    b) What are the economic impacts of persistent high deficits? (7 marks)
    c) "Countries sometimes need to run up debts". Discuss. (12 marks)

11. a) Distinguish between narrow and broad money. (6 marks)
    b) Describe what the quantity theory of money explains. (8 marks)
    c) What is the role of the European Central Bank? (11 marks)

12. a) Describe two types of exchange rate systems. (6 marks)
    b) What does the balance of payments show? Refer to the two main accounts. (11 marks)
    c) How do fluctuations in the exchange rate affect trade decisions? (8 marks)

SUBJECT:	ECONOMICS
PAPER NUMBER:	II
DATE:	4th September 2013
TIME:	9.00 a.m. to 12.00 noon

Answer **THREE** questions, at least **ONE** from Section A and **ONE** from Section B. All questions carry equal marks. This paper carries 40% of the global mark.

Section A

Question 1

The following table presents the demand and supply curve for DVDs:

Price	Demand	Supply
(Euro)	(units/ year)	(units/ year)
0	90	30
4	82	38
8	74	46
12	66	54
16	58	62
20	50	70
24	42	78
28	34	86
32	26	94

a) Draw the demand and supply curve based on the above figures and determine the equilibrium price and quantity. (4 marks)
b) Calculate the price elasticity of demand. (4 marks)
c) What would be the likely market impact if:
   i) government imposed a maximum price of Euro 20? (6 marks)
   ii) government imposed a maximum price of Euro 10? (6 marks)
   iii) government imposed a minimum price of Euro 10? (6 marks)
d) Under which circumstance (maximum price or minimum price) would there be a surplus of DVDs? (3 marks)
e) When binding maximum prices are imposed to benefit buyers, will this guarantee that all buyers will be able to buy the product? Give reasons for your answers. (4 marks)

Total: 33 marks

Question 2

The following table provides information on the demand for cars:

Price	Demand	Supply
(Euro '000s)	(units '000s/ year)	(units '000s/ year)
0	48	0
2	42	6
4	36	12
6	30	18
8	24	24
10	18	30
12	12	36
14	6	42
16	0	48

a) Draw the demand and supply curve based on the above figures and determine the equilibrium price and quantity. (4 marks)
b) Assume that the demand and supply curves for cars are elastic. If the government imposed a tax of Euro X on the buyer of each car, what would happen to the equilibrium price? (4 marks)
c) Assume that the government imposes a tax of Euro 3,000 (prices in table are expressed in thousands, so the tax is of Euro 3). What is the impact on the equilibrium price and quantity? (3 marks)
d) Based on the same tax in (c), what is the price if:
   i) the buyers pay after the tax is imposed? (4 marks)
   ii) the sellers receive after the tax is imposed? (4 marks)
e) Based on your demand and supply curve, what is the amount of tax that:
   i) buyers would want to pay? (4 marks)
   ii) suppliers would want to pay? (4 marks)
f) Is a tax on the buyers of cars likely to increase or reduce the size of the car market? Why?
(6 marks)
Total: 33 marks

Question 3

The following table provides various combinations of two goods that can be produced within an economy.

Combination	Toothbrushes units	Toasters units
1	67	0
2	64	5
3	61	10
4	57	15
5	51	20
6	44	25
7	31	30
8	0	35

(a) Draw the production possibility frontier. (4 marks)
(b) On this diagram, clearly mark:
    i) An efficient point as point A (3 marks)
    ii) An inefficient point as point B (3 marks)
    iii) An unattainable point as point C (3 marks)
(c) Calculate the opportunity cost of:
    i) getting 30 additional toothbrushes by moving from combination 7 to combination 3. (4 marks)
    ii) getting 15 additional toasters by moving from combination 3 to combination 6. (4 marks)
(d) What is likely to cause a shift of the frontier from combination 1 to combination 2? (4 marks)
(e) What is likely to cause a shift of the frontier from combination 3 to the inefficient point B in (b ii)? (4 marks)
(f) What is likely to cause an outward shift of the frontier from any of the combinations in the table to the unattainable point C in (b iii)? (4 marks)

Total: 33 marks

Section B

Question 4

In its 2013 mission, the International Monetary Fund (IMF) provided the following commentary on Malta's public finances:

"The government's objective to balance the budget over the medium term remains essential, but it requires sustainable consolidation efforts. After notable progress in 2011, the fiscal deficit widened to 3.3 percent of GDP in 2012, triggering a reassessment of Malta's public finances under the EU Excessive Deficit Procedure. Discretionary measures in the 2013 budget are expansionary and tax revenues appear optimistic in light of the moderate growth outlook and developments so far. Therefore, the IMF urges the Maltese authorities to adopt additional measures to ensure that the deficit falls below 3 percent of GDP in 2013 and public debt is put back on a sustainable path."

a) Why is an international institution like the IMF interested in Malta and providing regular outlooks on the Maltese economy?   (4 marks)
b) Why would a government want to balance its budget? Would such an exercise (of balancing the budget) apply under both an expansionary business cycle and under a recession?   (5 marks)
c) What constitutes an excessive deficit under EU rules?   (3 marks)
d) What do you understand by the IMF's comment that "discretionary measures in the 2013 budget are expansionary"?   (6 marks)
e) Why would tax revenues depend on the growth outlook? Provide an example in your answer.
                                                                                               (5 marks)
f) Provide three examples of the "additional measures" being advocated by the IMF to reduce the fiscal deficit and public debt.   (6 marks)
g) What do you understand by the term "sustainable" public debt?   (4 marks)
                                                                                            Total: 33 marks

Question 5

According to the 2013 Economic Survey published by the Ministry for Finance, in 2012 tourist departures increased by 2.1% over the previous comparable period, to reach the record level of 1,443,973 visitors. During this period, increases were recorded in the British, German and Italian markets.

The average length of stay increased marginally from 8.3 nights in 2011 to 8.7 nights in 2012. Earnings from tourism registered an increase of 8.2% during this twelve month period, to €984.7 million. On a per capita basis, expenditure by tourists increased by 6% to €682 during this period, while earnings per night spent increased from €77.8 to €78.0.

The cruise liner industry also registered a positive performance, increasing by 9.7% over 2011, to 594,350 arrivals. Full-time employment in accommodation and food service activities increased from 9,583 as at the end of October 2011 to 9,717 at the end of October 2012.

a) Explain why the Economic Survey always discusses tourism in great detail. Why is this sector relevant to the Ministry for Finance if government does not operate any hotels, restaurants and related tourism establishments? (6 marks)
b) Why are visitor numbers and the average length of stay equally important in interpreting tourism performance? How would you interpret the increase in both these indicators in 2012? (6 marks)
c) What reasons might have led to the increase in British, German and Italian visitors in 2012? (6 marks)
d) Does the cruise liner industry follow the same trends as the air travel industry? Are there any different demand factors applicable to the cruise liner industry? (6 marks)
e) While visitor numbers have been on the rise over the last years, a number of hotels often complain of falling margins. What external and internal factors could explain this situation? (6 marks)
f) The Economic Survey refers to employment figures as at the end of October. Would it have made a difference in absolute terms if other months were chosen? (3 marks)

Total: 33 marks

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Question 6

In its 2013 publication "Social Protection: Malta and the EU 2012", the National Statistics Office (NSO) focuses on all interventions by public and private bodies that are intended to relieve households and individuals of a known set of risks or needs.

In 2011, a total of €1,240 million were spent, representing 19% of the country's GDP. This is an increase of 27.5% over the levels of 2007, when expenditure represented 17.4% of the GDP.

There are about 19 different types of social welfare expenditure, with the main item being social security contributory benefits which amount to just over €561 million, reflecting 45% of total expenditure on social welfare. Healthcare takes up €271.6 million and is the second highest item of expenditure. Non-contributory benefits account for €166.8 million.

There are other significant items such as the Treasury pensions (€86 million), expenditure for the care of the elderly and the disabled (€55 million) and €37.3 million paid to employers as reimbursements for sick leave taken by their employees.

On a per capita basis, Malta spends around €4,000 on social protection. The EU average is just under €7,000. The richer EU countries tend to spend between €8,000 and €10,000.

a) Why is expenditure on social welfare needed in any economy? (5 marks)
b) Apart from public expenditure on social welfare, what other "private bodies" is this publication likely to be referring to? (4 marks)
c) How would you explain the increase in social welfare spent (in both absolute terms and as a percentage of GDP) in Malta between 2007 and 2011? (5 marks)
d) Can healthcare be referred to as a merit good? Discuss, referring to implications of a healthy society on economic growth. (8 marks)
e) What do you understand by "non-contributory benefits"? Provide two examples. (5 marks)
f) Why are richer countries spending more on social welfare per capita if their citizens are expected to have a higher level of income and higher standard of living? (6 marks)

Total: 33 marks