



SUBJECT:	Economics
DATE:	26 th April 2018
TIME:	9:00 a.m. to 12:05 p.m.

The question in Section A, is **compulsory**. In addition, answer **TWO** questions from Section B and **TWO** questions from Section C.

Section A carries a total of 20 marks, while Section B and Section C each carry a total of 40 marks. The paper is marked out of 100 marks.

SECTION A

This question is **compulsory** and carries 20 marks.

1. The National Agreement on the Minimum Wage signed by the Social Partners on the 28th of April 2017 stipulates, amongst other things, that employees on a minimum wage will, upon completion of the first year of employment with the same employer, be entitled to mandatory increases (over and above the cost of living adjustments) of €3 per week in the second year of employment, and upon completion of the second year, to an additional €3 per week."

(Source: Adapted from 'National Minimum Wage' by the Department for Industrial and Employment Relations. Available at: www.dier.gov.mt/en/Employment-Conditions/Wages/Pages/National-Minimum-Wage.aspx)

- a) Explain what is meant by 'minimum wage'. (5)
- b) Suppose that the minimum wage, prior to the National Agreement, was set at the equilibrium wage. Examine the likely impact on employment of an increase in the minimum wage. Illustrate your answer with an appropriate diagram. (10)
- c) Using the concept of elasticity, explain the longer-run effect of a minimum wage rise. (5)

(Total: 20 marks)

SECTION B

Answer any **TWO** questions in detail. Each question carries 20 marks.

2. a) Define 'demand' and 'the law of demand'. (5)
- b) How will the equilibrium price and equilibrium quantity change given each of the following shifts in demand and/or supply? Use a supply and demand diagram for each case.
 - i. Demand increases and supply remains constant;
 - ii. Demand remains constant and supply increases. (6)
- c) Suppose that government wants to restrict the number of vehicles on the roads and so imposes an excise duty upon retailers which can cost as much as €10,000 per vehicle before vehicles can hit the road. Using the supply and demand diagram, explain the impact of government's intervention on the equilibrium price of vehicles and the equilibrium quantity of vehicles. (9)

(Total: 20 marks)

3. a) In the running of a beverage factory, which would you consider to be fixed costs and which would you consider to be variable costs? (4)
- Overtime pay.
 - The cost of electricity for running the mixing machines.
 - Depreciation of machines due simply to their age.
 - Interest on a loan for the factory: the rate of interest rises over the course of the month.
- b) Define total, average and marginal cost. (6)
- c) By means of illustrating the average total, average variable and marginal cost curves for a firm, explain the 'law of diminishing marginal returns'. (10)

(Total: 20 marks)

4. a) Explain the main characteristics of a perfect competitive market structure. (6)
- b) Explain the main features of a monopoly market structure. (6)
- c) Discuss the theoretical advantages and disadvantages of a monopoly. (8)

(Total: 20 marks)

5. a) What is 'market failure'? (5)
- b) By means of diagrams, outline possible reasons for government intervention in the presence of externalities in production. (10)
- c) Briefly explain how government can use taxes to address a negative externality in production. (5)

(Total: 20 marks)**SECTION C**

Answer any **TWO** questions in detail. Each question carries 20 marks.

6. a) What do you understand by Gross Domestic Product (GDP)? Explain the different methods used to measure GDP. (12)
- b) Identify **FOUR** main difficulties in measuring GDP. (8)

(Total: 20 marks)

7. a) Graphically, explain the difference between the Short-Run Aggregate Supply (SRAS) curve and the Long-Run Aggregate Supply (LRAS) curve. (5)
- b) Identify and explain the effect of **TWO** determinants causing a shift in the SRAS and **TWO** other determinants causing a shift in the LRAS. (8)
- c) Explain how a shift in aggregate demand leads to a persistent increase in prices, while aggregate supply remains constant in the long-run. (7)

(Total: 20 marks)

8. a) Define and explain using diagrams **TWO** causes of inflation. (6)
- b) Define and explain the difference between the Retail Price Index (RPI) and the Harmonised Index of Consumer Prices (HICP) used to measure inflation. (6)
- c) Identify and explain at least **TWO** costs of inflation and **TWO** costs of deflation. (8)

(Total: 20 marks)

9. a) Define and explain the different stages of the Business Cycle. (4)
- b) Explain how the use of fiscal and monetary policy can lead to economic growth. (8)
- c) Does economic growth always imply a higher standard of living? Explain using arguments in favour and against economic growth. (8)

(Total: 20 marks)