



SUBJECT: **Economics**
DATE: 31st August 2018
TIME: 4:00 p.m. to 7:05 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.

SECTION A

This question is compulsory and carries 20 marks.

1. Property prices in Malta continued to increase. The transaction-based house price index increased by 5% in the first half of 2017 over the same reference period in 2016, following strong gains in 2014-16. While new construction is underway, the report identifies a number of reasons for the increase in property prices.

(Source: Adapted from IMF Staff Report for the 2017 Article IV Consultation. Available at: <http://www.imf.org/en/Publications/CR>)

- a) With reference to the extract above, identify **THREE** possible reasons why house prices increased by 5% in the first half of 2017 over the same reference period in 2016. Illustrate your answer with a demand and supply diagram. (10)
- b) Suppose that the price elasticity of supply is relatively inelastic, what is the likely effect on the equilibrium price and quantity if disposable incomes increase by 10%? (6)
- c) Give **TWO** likely reasons why the price elasticity of construction supply is likely to be relatively inelastic. (4)

(Total: 20 marks)

SECTION B

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

2. a) Define 'maximum price'. (5)
- b) How will the equilibrium price and quantity change following a setting of a 'maximum price'? Illustrate your answer using an appropriate supply and demand diagram. (9)
- c) Discuss **ONE** advantage and **ONE** disadvantage of setting maximum prices. (6)

(Total: 20 marks)

Please turn the page.

3. a) The owners of Marley and Marley Ltd have decided to carry out a cost analysis on their business. Classify the following into fixed and variable costs: (4)
- i. Paper print and ink.
 - ii. Rent.
 - iii. Interest paid on bank loan.
 - iv. The cost of electricity for running the machines.
- b) Suppose that you are the economic advisor of Marley and Marley Ltd. The owners want to maximise profits in the short-run. Explain how the firm can produce at its profit-maximising point. Illustrate your answer with a diagram showing the marginal cost, average total cost, and average variable cost curves. (10)
- c) In the long-run, the owners believe that there are many benefits arising from increasing the size of the firm. Define 'economies of scale' and explain **TWO** likely reasons why this may occur. (6)
- (Total: 20 marks)**
4. a) Explain **THREE** characteristics of an oligopoly. (6)
- b) Explain **THREE** features of a monopolistic competition. (6)
- c) Identify **FOUR** economic advantages of increased competition in a market. (8)
- (Total: 20 marks)**
5. a) Outline the meaning of the term 'market failure'. (5)
- b) Overfishing has caused a catastrophic decline in stocks of bluefin tuna. Examine the likely external costs from the overfishing of bluefin tuna. Illustrate your answer by using an appropriate diagram. (10)
- c) Discuss the likely impact on equilibrium of price and quantity if government introduces a new tax on each tuna caught. (5)
- (Total: 20 marks)**

SECTION C

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

6. a) Explain the term Gross Domestic Product and how it is measured. (7)
- b) What is the difference between nominal and real GDP? (3)
- c) Why is it important to measure GDP in real terms? (3)
- d) Define economic growth and explain **THREE** factors that lead to economic growth. (7)
- (Total: 20 marks)**
7. a) What are the main components of fiscal policy? (6)
- b) Trace the effects of an increase in government expenditure on economic activity. (6)
- c) In a period of high economic growth and high inflation, explain the type of fiscal policy you would expect the government to adopt. (8)
- (Total: 20 marks)**
8. a) Explain **THREE** different types of unemployment. (9)
- b) How is the unemployment rate estimated? (4)
- c) Why is unemployment considered a social and economic problem? Explain by using an example. (7)
- (Total: 20 marks)**
9. a) Why do countries trade with each other? (3)
- b) Explain **THREE** advantages of international trade. (3)
- c) What is the Balance of Payment? (2)
- d) Distinguish between the current and capital account of the balance of payments? (6)
- e) Explain **THREE** disadvantages of a sustained deficit in the current account. (6)
- (Total: 20 marks)**