



SUBJECT:	Economics
DATE:	18 th September 2020
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.

SECTION A

This question is Compulsory and carries 20 marks.

1. At the end of April, the toll on Brunel's iconic Clifton Suspension Bridge doubled from 50p to £1 for a single crossing by car. The bridge over the Avon Gorge links North Somerset with the Clifton area of Bristol and is a major access route to the north west of the city. Avoiding the bridge could add around 2 miles or 8 minutes to a journey from North Somerset to Clifton.

The justification given by the Clifton Suspension Bridge Trust for the increase was that extra revenue was needed for maintenance and repair. As Trust Chairman Chris Booy said, 'The higher toll will enable the Trust to continue its £9 million 10-year vital repair and maintenance programme which aims to secure the bridge's long-term future as a key traffic route, one of Bristol's major tourist destinations and the icon of the city'.

Source: Sloman, J. (2014). Price changes for travellers in Bristol – The Sloman Economics News Site. [online] Pearsonblog.campaignserver.co.uk. Available at: <https://pearsonblog.campaignserver.co.uk/price-changes-for-travellers-in-bristol/>.

- a. What is meant by 'price elasticity of demand'? (5)
- b. 'A price elasticity of demand of -1 means that demand is price elastic.' Do you agree with this statement? Explain your answer. (5)
- c. Suggest **TWO** possible reasons why demand for bridge crossings is likely to be price inelastic. (6)
- d. How is the price increase for Clifton Suspension Bridge Trust crossings likely to affect revenue? Explain your answer. (4)

(Total: 20 marks)

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SECTION B

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

2. Figure 1 represents the world market for hamburgers.

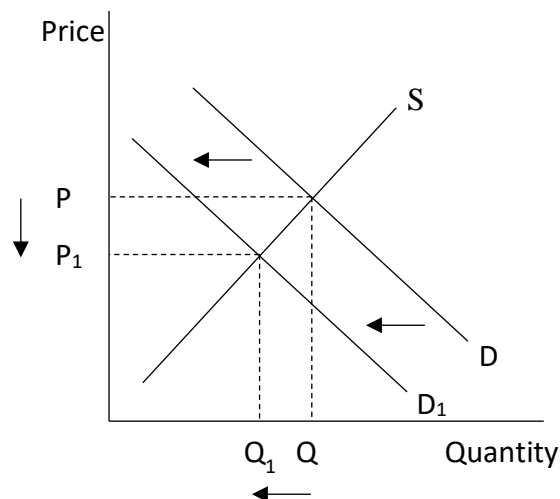


Figure 1: Demand and Supply Curves

- a. What is meant by 'the law of demand' and 'the law of supply'? (4)
- b. In Figure 1, the price changes from P to P_1 . What is the most likely factor to have caused the change in the price? Choose **ONE** of the following:
 - i. a decrease in supply
 - ii. a decrease in labour costs
 - iii. a decrease in population
 - iv. a decrease in the production of meat
 Explain the reason to your answer. (2)
- c. Following the observed change in the market, explain what will happen if the price remains at P . How does the market clear? Explain your answer. (8)
- d. In the following year, a leading market analyst observed that the price increased from P_1 back to P , but quantity traded remained unchanged at Q_1 . By using an appropriate diagram, explain how the price mechanism functions to determine this new equilibrium price and quantity of hamburgers. (6)

(Total: 20 marks)

3. Table 1 shows the production possibility curve schedule for the economy of Malta.

Table 1: Production Possibility Curve Schedule

Point	Capital Goods	Consumer Goods
A	11	0
B	10	1
C	8	2
D	5	3
E	0	4

- a. Define the term 'opportunity cost'. (2)
- b. Sketch a production possibility curve representing the economy. Explain what the production possibility curve schedule is showing. (6)
- c. Suppose that the economy is operating at point A, and the Government wants to allocate more resources to the production of consumer goods. Explain why along the curve, the economy is willing to give up more of capital goods for each extra unit of consumer goods. (4)
- d. The Government has just expressed its intention to produce 8 units of capital goods and 3 units of consumer goods. Explain why this point is currently unattainable. Suggest **TWO** possible ways how Malta can attain this combination. (8)

(Total: 20 marks)

4. The government is proud of its achievement in implementing measures that control tobacco smoking. One of the main measures was the introduction of a new lump-sum tax on tobacco smoking to increase the private cost of consumption. Because of this measure, cigarette smoking declined by 25% over the previous year.

- a. What is meant by 'positive externalities' and 'negative externalities'? (6)
- b. Explain why governments intervene in the market whenever the marginal social benefit is less than the marginal private benefit of consumption. (6)
- c. Explain why after the introduction of the tax measure, cigarette consumption declined. Use a demand and supply diagram in your answer. Explain your answer. (4)
- d. Define the term 'asymmetric information'. To what extent might asymmetric information exist in the tobacco market? (4)

(Total: 20 marks)

5. Energy Limited is monopolising the industry. A potential competitor, MT Limited, considers entering the industry. If the competitor enters, the monopolist can either reach a price agreement with the competitor or compete aggressively by cutting the price.

- a. Explain **FOUR** characteristics of a monopoly. (8)
- b. Briefly discuss the possible impact of monopoly power on consumers. (6)
- c. Energy Limited is considering a collusion with MT Limited. Explain the terms 'collusive behaviour' and 'non-collusive behaviour'. (6)

(Total: 20 marks)

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SECTION C

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

6. a. Define the Circular Flow of Income and outline its main components. (4)
b. By using a circular flow of income diagram, explain the difference between open economy and closed economy. (8)
c. How do withdrawals and injections feature in the circular flow of income? (8)

(Total: 20 marks)

7. a. Distinguish between government 'debt' and government 'deficit'. (4)
b. Using a diagram explain in detail how an expansionary fiscal policy can impact employment. (7)
c. Define and explain **THREE** reasons for government expenditure. (9)

(Total: 20 marks)

8. a. What is meant by 'Harmonised Index of Consumer Prices' (HICP)? (3)
b. By using **TWO** separate and appropriate diagrams, discuss **TWO** causes of inflation. (7)
c. How can monetary policy be used to control inflation? Explain using diagrams. (10)

(Total: 20 marks)

9. a. Define the term 'money' and explain the **THREE** motives for demanding money. (8)
b. Explain the difference between expansionary monetary policy and contractionary monetary policy. (6)
c. List and explain **THREE** functions of the European Central Bank. (6)

(Total: 20 marks)