



SUBJECT:	Economics
DATE:	17 th May 2022
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 price of Brent oil headed for a 53% rise to around \$79 per barrel in 2021, the strongest annual spike since 2009. The price increase was driven by the global economic recovery and supply-side issues.

The demand for oil remained relatively firm throughout the year despite ubiquitous Covid outbreaks coupled with lockdown and travel restrictions, exacerbated by the emergence of the Covid variants. Analysts attributed the market's strength to pent-up demand, government stimulus and producer restraint.

On the supply side, the Organization of the Petroleum Exporting Countries, (OPEC+) resisted calls from major economies to increase oil production and is expected to stick to their existing policy of modest monthly output increases.

*(Source: adapted from Reuters: 'Oil heads for biggest yearly gains since 2009',
31 December 2021)*

- a) Describe a scenario in which oil prices maintain a sustained increase over the coming months. Illustrate your answer with a supply and demand diagram. (6)
- b) Describe a scenario in which oil prices fall over the coming months. Illustrate your answer with a supply and demand diagram. (6)
- c) Project forward 10 years and predict whether oil prices will be higher or lower than now. Describe **ONE** major supply and demand determinant for **each** in your prediction. (4)
- d) Briefly explain how speculation affects oil prices. (4)

(Total 20 marks)

Section B

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

2. Figure 1 refers to production possibility frontiers for a country that produces capital goods and consumer goods.

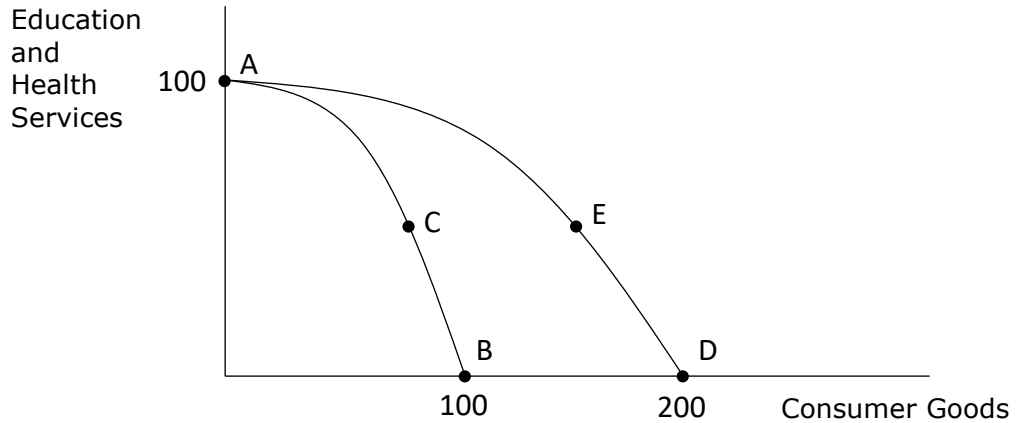


Figure 1: Production possibility frontiers

Originally, the economy was operating at point C along the frontier shown by the line AB. The frontier then moves to AD, operating at point E.

- a) Explain **ONE** characteristic of point C. (4)
- b) How is the concept of the opportunity cost captured in the diagram? (4)
- c) Give and explain **ONE** possible reason for the most likely causes of the movement of the production possibility frontier from AB to AD. (4)
- d) Discuss the economic justification for government intervention in the provision of education and health services. (8)

(Total: 20 marks)

3. The demand for beef is negatively related to the price of beef:

$$\text{elasticity} = -0.43.$$

The demand for beef is also affected by the prices of lamb and pork. Cross-elasticities of demand for beef with respect to the prices of these goods are:

$$\begin{aligned} \text{lamb} &= -0.23 \\ \text{pork} &= -0.10 \\ \text{veal} &= 0.59 \end{aligned}$$

- a) Define price elasticity of demand and cross-elasticity of demand. (6)
- b) How would you interpret the price elasticity of demand and cross-price elasticities presented in question 3? (10)
- c) Studies show that Maltese households are spending a larger proportion of the share of household expenditure in restaurants than they did 10 years ago (excluding years with Covid-19 pandemic). What factor might explain the amounts spent on meals out of the home? (4)

(Total: 20 marks)

- 4. a) Describe the main characteristics of a monopoly. (4)
- b) Why have economists argued that monopoly leads to economic inefficiency? (8)
- c) What arguments can be made to challenge and/or support the statement that monopoly leads to inefficiency? (8)

(Total: 20 marks)

- 5. Table 1 refers to the costs of a small firm.

Table1: Cost relative to output

Output (units)	Total Cost (€)
0	100
1	150
2	200

- a) Define **each** of the terms below and from the information calculate **each** output level:
 - i. average fixed cost;
 - ii. average variable costs; and
 - iii. marginal cost. (6)
- b) Distinguish between normal profit, supernormal profit and economic losses. (6)
- c) Explain clearly the law of variable proportions. How does the working of this law influence a firm's cost of production? (8)

(Total: 20 marks)

SECTION C

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

- 6. a) 'Money is a store of value'. Is this always true? Explain. (6)
- b) Distinguish between inflation and deflation. (6)
- c) Why is high inflation a problem? Identify at least **TWO** effects. (4)
- d) Identify at least **TWO** effects of deflation. (4)

(Total: 20 marks)

Please turn the page.

7. a) What is the difference between exports and imports? (4)
- b) Classify the following as either exports or imports from Malta's point of view and briefly explain why: (8)
- i. shoes made in China are sold in Malta;
 - ii. a Maltese farmer sells produce to Italy;
 - iii. a German resident comes for a holiday in Malta; and
 - iv. coffee grown in Brazil is shipped to Malta.
- c) Mention **FOUR** factors that influence exports and imports. (8)

(Total: 20 marks)

8. a) Explain the **FOUR** stages of the business cycle. (8)
- b) Define economic growth and explain **THREE** causes of economic growth. (7)
- c) Does economic growth always increase living standards? Explain. (5)

(Total: 20 marks)

9. a) What is the difference between fiscal policy and monetary policy? (8)
- b) Name and explain the **THREE** motives for demanding money. (6)
- c) Using appropriate diagrams, explain how interest rate can be used to control inflation. (6)

(Total: 20 marks)