

MATRICULATION AND SECONDARY EDUCATION CERTIFICATE EXAMINATIONS BOARD  
UNIVERSITY OF MALTA, MSIDA

**SECONDARY EDUCATION CERTIFICATE LEVEL**

**MAY 2012 SESSION**

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SUBJECT:	<b>Economics</b>
PAPER NUMBER:	I
DATE:	21 <sup>st</sup> May 2012
TIME:	9:00 a.m. to 11:00 a.m.

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**Directions to Candidates**

**This paper has two Sections, with three questions in each Section.  
Answer ANY FOUR questions. All questions carry 25 marks each.**

**Remember:**

- Orderly presentation and neatness of diagrams are required.
- Answer adequately in complete sentences.
- Start a **fresh page** for each answer.
- Non-programmable electronic calculators may be used.
- All workings must be shown.
- Questions set in the **context of the Maltese economy** must be answered with this context as background. The use of recent examples from the Maltese economy, where relevant and appropriate, will gain credit.
- In answering questions that do not specifically relate to the Maltese economy, you may also refer to examples from other countries.

## **SECTION A: MICRO ECONOMICS**

### **Question 1**

*The demand for hot chocolate, milk, sugar and tea is affected by the price of coffee. The cross elasticities of demand for these goods in relation to the price of coffee are shown below:*

	hot chocolate	milk	sugar	tea
Cross-elasticity of demand	+1.59	-0.53	-0.48	+1.61

- (a) Define cross-elasticity of demand and explain how it is measured. (3 marks)
- (b) Why is the value of the cross-elasticity of hot chocolate and tea greater than 1? What can you say about the other products? (2+2 marks)
- (c) If there is a reduction in the price of coffee what will be the consequences on the demand of the products shown above? Explain your answer. (6 marks)
- (d) At a price of 50 cents the demand for coffee is 1000 units (per month) whereas at a price of 40 cents the demand for coffee is 1100 units (per month). Calculate the price elasticity of demand assuming that the original price is 50 cents. What can you deduce from this result? (4+2 marks)
- (e) How might the values of elasticities be useful for (i) suppliers and (ii) governments? (3+3 marks)

### **Question 2**

*In recent years Malta has seen an increase in the number of large foreign businesses that have decided to set up their operations in Malta. Maltese institutions, such as Malta Enterprise and Malta Environment and Planning Authority have been instrumental in this respect.*

- (a) Why would a foreign company wish to set up business in Malta? (7 marks)
- (b) What are the advantages of being a multinational? (6 marks)
- (c) Is it always beneficial to have such businesses operating in your country? Explain your answer. (6 marks)
- (d) How does MEPA affect the choice of location for a business? (6 marks)

**Question 3**

*Malta's small telecommunications industry is primarily made up of a handful of firms, which are offering the same type of service to consumers.*

- (a) Why do firms compete? (6 marks)
- (b) What are the effects of having more than one firm in the telecommunications industry? (6 marks)
- (c) Is competition always in favour of consumers? Explain your answer. (6 marks)
- (d) One of the firms comes up with a very attractive package deal. Draw and explain by means of a supply and demand diagram how this would affect (i) this firm and (ii) the other firms in the industry. (7 marks)

**SECTION B: MACRO ECONOMICS**

**Question 4**

*The National Census was held in November 2011 to determine demographic and social characteristics pertaining to households in Malta. Moreover, it has been observed that demographic changes, in particular the birth rate and the death rate, have affected Malta's working population. It is also noted that Malta's population has increased substantially over the last century.*

- (a) Define birth rate and death rate and explain why these rates have fallen in many developed countries. (6 marks)
- (b) In light of the changes in the rates, explain the growing importance of education and health to Malta's population. (6 marks)
- (c) Identify and explain two economic problems which could result due to a change in the age structure of Malta's population. (6 marks)
- (d) Discuss two measures the government of Malta could use to overcome the problems associated with an increase in Malta's population. (7 marks)

**Question 5**

*In this year's Budget Speech, Malta's finance minister announced a number of economic objectives. Although Government envisages a revenue of €2.5 billion, this budget saw a number of fiscal measures aimed at combatting the national debt while simultaneously improving education and incentivising investment and business, amongst others.*

- (a) Describe three macro-economic aims a government might have. (6 marks)
- (b) Outline and assess the different sources of government revenue. (6 marks)
- (c) Identify and explain one advantage and one disadvantage of an increase in government expenditure on education. (6 marks)
- (d) What is meant by the national debt and what are its implications? (7 marks)

**Question 6**

*The World Bank has reported that global economic growth is expected to slow slightly in 2012, and the euro-zone economy is forecast to shrink 0.3% for the year. China's economy, although still growing, is also slowing down.*

- (a) What is economic growth and how is it measured? (3+3 marks)
- (b) What do you think has led to the decrease in growth in the euro-zone area? (6 marks)
- (c) What are the benefits of economic growth to the Chinese economy? (6 marks)
- (d) Does achieving economic growth actually make a country better off? (7 marks)

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**SECONDARY EDUCATION CERTIFICATE LEVEL**

**MAY 2012 SESSION**

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SUBJECT:	<b>Economics</b>
PAPER NUMBER:	IIA
DATE:	23 <sup>rd</sup> May 2012
TIME:	9:00 a.m. to 11:00 a.m.

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**Directions to Candidates**

**This paper has two Sections, with four questions in each Section.  
Answer FOUR questions, at least ONE from each Section.  
All questions carry 25 marks each.**

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## **SECTION A: MICRO ECONOMICS**

### **Question 1**

- (a) Although in an economy there are large firms which benefit from economies of scale, discuss why small firms still exist. (8 marks)
- (b) What benefits are likely to result from external economies of scale? (8 marks)
- (c) What are the problems that a firm might face if it expands beyond its optimum size? (9 marks)

### **Question 2**

- (a) Mobility of resources brings with it several advantages. Define *occupational* and *geographical mobility* of labour and discuss the importance of each. (8 marks)
- (b) Why does the country's population differ from the working population of the same country? (8 marks)
- (c) Malta has experienced a decline in employment in the primary industry. What are the causes and effects of such a change? (9 marks)

### **Question 3**

- (a) If there is a reduction in the global supplies of crude oil, what are the likely effects on the price and the quantity demanded of this commodity? Support your answer with a diagram. (8 marks)
- (b) The increases in the price of fuel have left the demand relatively stable. Does this contradict the law of demand or not? Explain. (8 marks)
- (c) How can a country tackle the problem of diminishing supplies of non-replaceable resources, such as crude oil? (9 marks)

### **Question 4**

- (a) How do costs vary with an increase in the scale of production or level of service over a period of time? (8 marks)
- (b) In reality, prices are not exclusively fixed on costs. What other considerations have to be taken into account? (8 marks)
- (c) Private firms only take into account their own costs and benefits when producing goods and services, with the likely result of having environmental externalities. How can the government intervene to regularise this situation? (9 marks)

## **SECTION B: MACRO ECONOMICS**

### **Question 5**

- a) How does money overcome the problems of the bartering system? (8 marks)
- b) The Central Bank of Malta has decided to issue bonds on behalf of the government. What effect is this likely to have on the money supply and the rate of interest? Support your answer with a diagram. (8 marks)
- c) What are the effects on the Maltese economy if the Central Bank decides to raise the base interest rate? (9 marks)

### **Question 6**

- a) Define inflation and describe the causes that bring about inflation. (8 marks)
- b) How might inflation affect a person's spending, saving and borrowing? (8 marks)
- c) Discuss the actions that a government might take to control inflation. (9 marks)

### **Question 7**

- a) Some countries may be self-sufficient, yet still they engage in international trade. What are the reasons for doing so? (8 marks)
- b) Despite the advantages associated with international trade, some countries seek to restrict transactions with other countries. For what economic reasons do governments impose barriers to trade? (8 marks)
- c) Describe the problems met by developing countries as they engage in international trade. (9 marks)

### **Question 8**

- a) What are the reasons for government expenditure? (8 marks)
- b) How does fiscal policy reduce inequalities in the living standards of various sections of the Maltese population? (8 marks)
- c) Besides fiscal policy, discuss other government policies that can be used to stimulate productivity in an economy. (9 marks)

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**Directions to Candidates**

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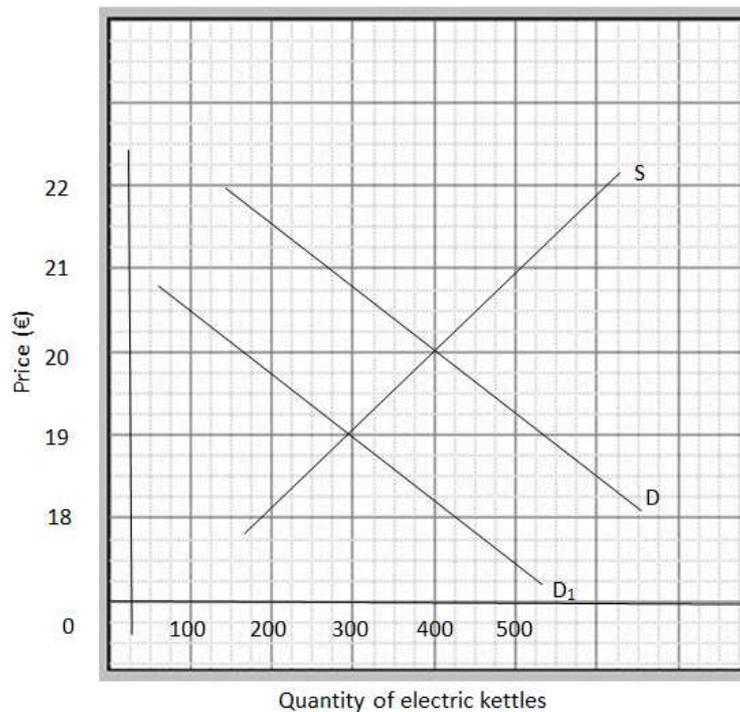
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## SECTION A: MICRO ECONOMICS

### Question 1

The following diagram shows the demand and supply of electric kettles. The diagram shows that D is the original demand curve.



- (a) Distinguish between *demand* and *supply*. (4 marks)
- (b) Give the original equilibrium price and equilibrium quantity for electric kettles. (4 marks)
- (c) Distinguish between a *contraction* and an *extension* of supply. (4 marks)
- (d) Explain how the diagram above would change and the effect on the equilibrium price and quantity of electric kettles bought and sold, as a result of the following changes:
  - (i) An increase in the price of labour utilised in the production of electric kettles; (4 marks)
  - (ii) A decrease in government subsidies on electric kettles. (4 marks)
- (e) Outline the causes of the inward shift in the demand curve from D to D<sub>1</sub> for electric kettles. (5 marks)

**Question 2**

A small manufacturing firm employs 5 workers for a 5-day week during which time it produces 470 units. Its fixed scale of production incurs the following costs during a particular week:

Rent	€200
Wages	€700
Raw materials	€680
Electricity	€350
Interest on loan from the bank	€185

- (a) Distinguish between fixed and variable cost and classify the costs in the table between these two types of costs. (7 marks)
- (b) Calculate:
- i) Fixed costs per week (2 marks)
  - ii) Variable costs per week (2 marks)
  - iii) Average costs per week (2 marks)
  - iv) Average product per week (2 marks)
- (c) Define opportunity cost. (3 marks)
- (d) What is a social cost? Support your answer with an example. (4 marks)
- (e) From the above, explain whether the firm is operating in the short run or in the long run. (3 marks)

**Question 3**

- (a) On what basis would you classify a firm as being small, medium or large? (4 marks)
- (b) What is the difference between a firm and an industry? (3 marks)
- (c) How would a firm grow internally? (4 marks)
- (d) For what reasons would a firm substitute labour for capital in production? (4 marks)
- (e) Mention two forms of assistance that is provided by Malta Enterprise to small firms. (4 marks)
- (f) Despite the various advantages of growth, small firms continue to exist and survive. Why does the government encourage small firms to be set up? (6 marks)

**Question 4**

- (a) What makes up the working population? (4 marks)
- (b) If the working population of Malta were to increase, how would this affect the major production sectors? (4 marks)
- (c) Define the three major production sectors and give two examples of each. (6 marks)
- (d) Distinguish between production and productivity. (4 marks)
- (e) What is occupational mobility? (3 marks)
- (f) How does occupational mobility benefit the working population? (4 marks)

**SECTION B: MACRO ECONOMICS**

**Question 5**

- a) Distinguish between money and the barter system. (4 marks)
- b) What are the different forms of money in today's world? (4 marks)
- c) What are the advantages and disadvantages of holding money as an asset? (4 marks)
- d) Why would each of the following be unsuitable as a unit of currency: (i) grass; (ii) bars of gold (iii) flowers (iv) goats? (2+2+2+2 marks)
- e) What effect would raising the base rate of interest by the Central bank of Malta have on the money supply? (5 marks)

**Question 6**

- a) What is inflation? (3 marks)
- b) Distinguish between *cost-push* and *demand-pull* inflation. (6 marks)
- c) If the price of raw materials such as crude oil, rises, how would this affect the prices of finished goods and services? (4 marks)
- d) What effect will your answer in (c) above have on aggregate demand of goods and services? (4 marks)
- e) Discuss the actions that a government might take to (i) control inflation and (ii) reduce unemployment. (4+4 marks)

**Question 7**

- a) Explain the economic reasons as to why Malta (a) buys wine from France and (b) exports potatoes to the Netherlands. (5 marks)
- b) Why would a country want to restrict trade with other countries? (4 marks)
- c) Discuss the differences between free trade and a trade agreement. (4 marks)
- d) Give three examples of trade barriers and explain them. (6 marks)
- e) Analyse the advantages of free trade. (6 marks)

**Question 8**

- a) Give two reasons why governments impose taxes. (4 marks)
- b) Suggest ways in which spending on education could be on (i) capital goods, (ii) consumer goods. (4 marks)
- c) How can the government reduce a budget deficit? (4 marks)
- d) How does government fiscal policy affect the distribution of personal income in Malta? (4 marks)
- e) Assess the economic effects of a cut in income tax on:
  - (i) The availability of jobs
  - (ii) Public expenditure
  - (iii) The rate of inflation (3+3+3 marks)