



SUBJECT:	Economics
PAPER NUMBER:	I
DATE:	25 th April 2019
TIME:	9:00 a.m. to 11:05 a.m.

This paper has two Sections.

Answer **ANY FOUR** questions. Questions carry 25 marks each.

SECTION A - MICRO ECONOMICS

1. Assume that the economy is at full employment. Government has funds which need to be allocated between two projects: building new roads and planting of trees. The following combination is drawn up.

New Roads (in units)	Tree Planting (in units)
0	25
7	23
13	19
18	13
23	0

- (a) Describe the nature of the economic problem. (3)
- (b) On the graph paper provided, plot the production possibility curve from the above table. (4)
- (c) On your plotted diagram, show:
- (i) a point A that indicates an unattainable combination;
 - (ii) a point B that indicates unemployment of resources;
 - (iii) a point C that indicates full employment of resources;
 - (iv) a point D that indicates that government allocates all resources on new roads. (4)
- (d) Show whether the opportunity cost of building new roads increases **or** decreases with more production of new roads. (5)
- (e) Give **FOUR** differences between merit goods and public goods. (4)
- (f) Government intervenes in mixed economies, which are a mixture of market economies and planned economies. Give **THREE** advantages of market economies and **TWO** advantages of planned economies. (5)

(Total: 25 marks)

Please turn the page.

2. Barclays Bank, one of the UK’s largest banks, has been exploring the possible merger with rival international banks due to the pressures it is facing from one of its shareholders.

The Financial Times (www.ft.com)

- (a) Mention **TWO** features for **each** of the following types of firms in the private sector:
 - (i) Partnership; (2)
 - (ii) Company. (2)
- (b) Briefly describe **TWO** ways how a banking firm can make use of internal growth. (4)
- (c) Explain **TWO** ways how consumers can benefit from horizontal mergers. (4)
- (d) Explain the **TWO** main external sources of finance a public listed company (quoted company) has at its disposal. (4)
- (e) Give **TWO** reasons why a company would want to enter into a conglomerate. (4)
- (f) Compare and contrast public sector and private sector firms with reference to the functions of the entrepreneur: risk-bearing, organisation and management. (5)

(Total: 25 marks)

3. A recent graduate was interviewed and was offered various wages per hour. He was also asked how many hours per day he would be willing to spend for any given wage. The responses are represented in the below table.

Wage per hour (€)	Hours worked per day
10	6
20	8
30	10
40	12
50	10
60	8

- (a) List **TWO** factors affecting the demand for labour and **TWO** factors affecting the total supply of labour other than the wage rate. (4)
- (b) State the main function of a trade union and the main function of an employers’ association. (4)
- (c) (i) Plot the data in the above table on the graph paper provided. Hours worked per day should be on the x-axis and wage in Euro should be on the y-axis. (4)
- (ii) Identify the type of supply curve your graph is showing. (1)
- (d) (i) The supply of labour exceeds demand for labour at a specific wage rate. What is this condition called? Illustrate this condition by means of a diagram. (2)
- (ii) The demand for labour exceeds the supply of labour at a specific wage rate. What is this condition called? Illustrate this condition by means of a diagram. (2)
- (e) Explain briefly **FOUR** reasons why wage differentials occur in labour markets. (4)
- (f) Explain briefly **TWO** arguments in favour and **TWO** arguments against minimum wage legislation. (4)

(Total: 25 marks)

SECTION B - MACRO ECONOMICS

4. Malta's robust economic performance is set to continue. Aided by favourable domestic and external conditions, real GDP growth is projected at 5.8 percent in 2017 and 5.1 percent in 2018. Growth will be driven largely by domestic demand in the coming years backed by rising incomes and historically-low unemployment while buoyant services exports will continue to sustain current account surpluses.

Adapted from the website of The International Monetary Fund (www.imf.org)

- (a) (i) What does the acronym GDP stand for? (1)
 (ii) Malta's GDP is expressed as a value in Euro (€). What does this value represent? (3)
- (b) Briefly explain **TWO** difficulties in measuring GDP. (4)
- (c) The circular flow of income shows connections of different sectors in the economy.
 (i) From the text above, identify the injection into the circular flow income. (1)
 (ii) How does an increase in injections affect the circular flow of income? Illustrate your answer with an appropriate diagram. (3)
- (d) (i) Give **TWO** examples of withdrawals (leakages) from the circular flow of income. (2)
 (ii) Withdrawals (leakages) exceed injections. Briefly explain how the size of the circular flow of income would be influenced. (3)
- (e) Can real GDP and nominal GDP ever be equal to each other? Explain your answer. (4)
- (f) Briefly discuss **TWO** advantages of measuring GDP by using more than one approach. (4)

(Total: 25 marks)

5. The Central Bank of Malta (CBM) contributes to monetary policy decisions affecting the euro area through the participation of the Governor in the Governing Council of the European Central Bank (ECB). The Bank is also responsible for the implementation of these decisions in Malta, using a range of monetary policy instruments approved by the ECB.

The Central Bank of Malta (www.centralbankmalta.org)

- (a) List **FOUR** functions of a central bank. (4)
- (b) List **FOUR** types of organisations involved in the financial industry in Malta other than the CBM. (4)
- (c) Explain **TWO** weaknesses of a trading system that operates without the use of money. (4)
- (d) Explain **TWO** problems of using pebbles as money. (4)
- (e) How are **each** of the functions of a central bank that you listed in (a), above, similar or different to the functions of commercial banks? (5)
- (f) Why do commercial banks charge interest on loans? Give **TWO** reasons. (4)

(Total: 25 marks)

Please turn the page.

6. This question is about international trade. Assume that Country A and Country B produce just two goods: mobile phones and sugar. Each country has equal resources. The total output per week is shown in the table below:

	Phones	Sugar (in kg)
Country A	50	200
Country B	40	80

- (a) (i) Define absolute advantage. (1)
 (ii) Which country enjoys an absolute advantage in the production of phones and which country enjoys absolute advantage in the production of sugar? Briefly explain your answers by reference to the figures in the table. (3)
- (b) (i) Define comparative advantage. (1)
 (ii) Which country enjoys a comparative advantage in the production of phones and which country enjoys a comparative advantage in the production of sugar? Show your working. (3)
- (c) Countries specialise in products in which they have comparative advantage and then trade with other countries. Identify **THREE** effects on Malta if it stopped trading with other countries. (3)
- (d) Notwithstanding the benefits of international trade, some countries still try to protect their local industries. Identify **FOUR** ways of protectionism. (4)
- (e) Two of the main components of Malta's Balance of Payments are the Balance of Trade and the Current Account Balance. Distinguish between Malta's Balance of Trade and its Current Account Balance. Give **TWO** differences. (4)
- (f) Give **ONE** reason for an appreciation of the Euro in terms of the US Dollar in terms of exports and **ONE** reason for an appreciation of the Euro in terms of the US Dollar in terms of imports. Illustrate your answer with sketch graphs. (6)

(Total: 25 marks)



SUBJECT: **Economics**
 PAPER NUMBER: IIA
 DATE: 26th April 2019
 TIME: 9:00 a.m. to 11:05 a.m.

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

SECTION A: MICRO ECONOMICS

1. The following is the demand schedule for pairs of jogging shoes:

Price per Pair (€)	Quantity Demanded (pairs)	Total Revenue/Expenditure (€)	Price Elasticity of Demand (PED)
140	2		n.a.
120	6		
100	10		
80	14		
60	18		
40	22		
20	26		

- (a) In your booklet, copy and complete the table by calculating:
- the Total Revenue/Expenditure for **each** price level; (2)
 - The Price Elasticity of Demand (PED) for **each** price change. Give figures correct to 2 d.p. (3)
- (b) (i) Give **ONE** example of how a contraction of demand for jogging shoes may occur. (1)
 (ii) Give **ONE** example of how a decrease in demand for jogging shoes may occur. (1)
 Illustrate your answers with appropriate diagrams. (3)
- (c) Explain the relationship between Price, Total Revenue/Expenditure and the Price Elasticity of Demand (PED). Illustrate your answer with examples from your calculations in (a), above, where appropriate. (7)
- (d) Assess the main problem that a price ceiling creates. Illustrate your answer with an appropriate diagram. (8)

(Total: 25 marks)

Please turn the page.

2. You have been asked to analyse the data for one of Malta’s manufacturing factories. Upon data collection you come up with the following estimates. The factory currently employs 40 employees. An increase in the number of employees to 50 and to 60 is expected to change total product to 1,000 units and to 960 units, respectively. The table below shows both the actual and projected total product.

Labour (units)	Total Product (units)
10	200
20	460
30	750
40	920
50	1,000
60	960

- (a) The factory owner cannot comprehend the idea of diminishing returns.
 - (i) Briefly explain the law of diminishing returns to the factory owner. (3)
 - (ii) Identify the number of employees at which diminishing returns set in. Briefly explain your answer, showing any working that may be required. (3)
- (b) (i) Are the employees operating in the primary, secondary or tertiary stage of production? Briefly explain your answer. (2)
- (ii) In the table above, the increase in total product is due only to the increase in the employment of labour. Is the factory operating in the short run or in the long run? Briefly explain your answer. (3)
- (c) (i) Distinguish between fixed cost and variable cost. Give **THREE** differences that include examples and sketch graphs. (4)
- (ii) What is the relationship between Marginal Cost and Average Cost? Illustrate your answer with a sketch graph. (4)
- (d) (i) Explain why diminishing returns happen in this situation. (4)
- (ii) Recommend **ONE** solution to the factory owner to overcome this problem. Explain your answer. (2)

(Total: 25 marks)

3. Malta has reached the required standards that allow international companies in any sector, but particularly in the financial services sector, to be based here and be serviced by highly-qualified and highly-experienced professionals. You work as the Personal Assistant to the Minister of Finance in Malta.

- (a) Name the institution that helps multinationals set up businesses in Malta. Identify and explain the role of the unit this organisation dedicates to multinationals. (5)
- (b) Is Malta’s labour force geographically and occupationally mobile? Explain your answer with reference to the definitions of the geographic and occupational mobility of labour. (6)
- (c) The location of local businesses is extremely important. Explain **FOUR** factors that determine their location. (8)
- (d) Explain **THREE** reasons that you would provide to the Ministry of Finance for its press release, in explaining why multinational firms decide to choose Malta as a place to set up their business. (6)

(Total: 25 marks)

4. A young entrepreneur is setting up business in Malta selling fruit and vegetables. The Maltese market has various sellers selling such goods.
- (a) (i) Identify the type of market structure that the entrepreneur will be entering. (1)
 - (ii) Describe the role of profit in a market economy. (4)
 - (b) Describe **TWO** barriers of entry that may result in monopoly power in Malta, providing an example of **each** to substantiate your argument. (6)
 - (c) Differentiate between monopolistic and perfectly competitive market structures. Explain **FOUR** differences. (8)
 - (d) Explain how the entrepreneur benefits from operating in the market you identified in (a) (i), above. Predict, by utilising **TWO** arguments, whether he/she will be improving or deteriorating consumer welfare. (6)

(Total: 25 marks)

SECTION B: MACRO ECONOMICS

5. A Government budget is a forecast of government's expenditures and revenues for a specific period of time, usually one year.
- (a) (i) Taxation is one major source of government revenue. Name **ONE** other source of government revenue. (1)
 - (ii) Name and briefly explain **TWO** qualities of a good tax. (4)
 - (b) Show how an increase in government revenue may affect:
 - (i) a budget deficit; (3)
 - (ii) the national debt. (3)
 - (c) Distinguish between progressive, proportional and regressive taxation. Illustrate your answer with sketch graphs **or** numerical examples and give **ONE** example of **each**. (9)
 - (d) Give **THREE** advantages of a direct tax and **TWO** advantages of an indirect tax. (5)
- (Total: 25 marks)**
6. According to a News Release by the National Statistics Office (NSO), data for December 2018 indicate a decline of 402 unemployed persons when compared to the same month in 2017.
- (a) (i) Define unemployment. In your answer, state the **TWO** data (statistics) that would be needed to measure the unemployment rate. (3)
 - (ii) In what ways would government know how many persons are unemployed? Give **TWO** ways. (2)
 - (b) Show that **each** way you gave in (a) (ii), above, may lead to inaccurate information about the number of persons unemployed. (6)
 - (c) Give **THREE** distinguishing features of cyclical unemployment (also known as demand-deficient or general unemployment) and structural unemployment. (6)
 - (d) Evaluate the use of fiscal policy to reduce cyclical unemployment and to reduce structural unemployment. (8)

(Total: 25 marks)

Please turn the page.

7. For developing economies in Sub-Saharan Africa, economic growth enables countries to escape the worst levels of poverty. In the developed world, economic growth is less essential.

- (a) What is economic growth and how is it measured? (5)
- (b) (i) Identify **THREE** demand-side factors that may influence economic growth. (3)
(ii) Identify **THREE** supply-side factors that may influence economic growth. (3)
- (c) Give **THREE** distinguishing characteristics of developing and developed countries. (6)
- (d) (i) Give **FOUR** reasons why economic growth may be desirable. (4)
(ii) Briefly discuss **FOUR** possible costs (disadvantages) associated with economic growth. (4)

(Total: 25 marks)

8. When compared to 2015, the population increase was mainly due to net migration. The revised total population of Malta at the end of 2016 stood at 460,297. Persons under 18 numbered 78,250 while 86,536 were aged 65 and over.

Adapted from the website of The National Statistics Office (www.nso.gov.mt)

- (a) (i) What is meant by net migration? (2)
(ii) Name **TWO** other demographic statistics, besides net migration, that can influence the size of a country's population. (2)
(iii) Which rate is being calculated when subtracting one of the statistics you mentioned in (ii), above, from the other? (1)
- (b) Make use of the statistics in the extract above to show that Malta has an ageing population. Show your workings. (6)
- (c) What is the relationship between changes in the dependency ratio and changes in the dependent population? In your answer, define dependent population and show how the dependency ratio is calculated. (6)
- (d) (i) Give **FOUR** possible reasons explaining the decline in the birth rate in developed countries over the years. (4)
(ii) Mention **FOUR** possible effects of a decrease in the birth rate on the economy in general. (4)

(Total: 25 marks)



SUBJECT:	Economics
PAPER NUMBER:	IIB
DATE:	26 th April 2019
TIME:	9:00 a.m. to 11:05 a.m.

This paper has two Sections.

Answer **FOUR** questions, at least **ONE** from **each** Section.

Questions carry 25 marks each.

SECTION A: MICRO ECONOMICS

1. Claudia leases a workshop, in which she manufactures carpets from organic material she collects for free. She finds that if she works alone for a day, she can produce two carpets. If she hires one additional worker, together they can produce 5 carpets in a day, each specialising in some of the tasks. Adding a third worker also allows for more specialisation, bringing production up to 8 carpets. Adding a fourth worker adds only 2 carpets to production, because the benefits of specialisation start deteriorating. Hiring a fifth worker adds only 1 additional carpet to daily production because now the workshop space is getting crowded.

(a) Name **TWO** items **each** of:

- (i) Fixed Cost; (2)
- (ii) Variable Cost. (2)

(b) In your booklet, copy and complete columns (2) and (3) of the table below for **each** level of employment of labour with reference to the data above. (5)

(1) Quantity of Labour	(2) Total Product	(3) Marginal Product
0		
1		
2		
3		
4		
5		

- (c) Explain what Claudia will experience when she employs the fourth worker. (4)
- (d) Is Claudia operating in the short run or in the long run? Briefly explain your answer by referring to the paragraph above. (4)
- (e) Compare and contrast the primary and secondary stages of production. Give **TWO** comparisons and **TWO** differences. (4)
- (f) Briefly explain **TWO** advantages and **TWO** disadvantages of the division of labour. (4)

(Total: 25 marks)

Please turn the page.

2. Multinational firms have had a strong influence on the Maltese economy.
- (a) Explain what is meant by a multinational. (3)
 - (b) (i) Explain the main role of Malta Enterprise. (4)
 - (ii) Name the policy that governments use to influence industrial location. (1)
 - (c) Draw a pie chart to show the distribution of employment in the primary, secondary and tertiary sectors in Malta. Label the appropriate sectors P, S and T. (4)
 - (d) Explain how the Planning Authority (PA) can affect the choice of location for a business. (5)
 - (e) Compare and contrast the terms geographical and occupational mobility. Give **TWO** comparisons and **TWO** differences. (4)
 - (f) Assess **TWO** reasons why a foreign company may choose Malta as its country of operation. (4)

(Total: 25 marks)

3. This question relates to supply and demand.
- (a) Define the terms (i) demand, and (ii) supply, as used in microeconomics. (4)
 - (b) (i) What is meant by the Price Elasticity of Demand (PED)? (2)
 - (ii) Draw a diagram of an inelastic demand curve. (2)
 - (c) Copy and complete the table below by identifying whether **each** scenario results in an extension, contraction, increase or decrease in the demand for cars. (5)

Scenario	Type of movement
(i) The price of cars decreases.	
(ii) The price of motor cycles decreases.	
(iii) The price of car fuel decreases.	
(iv) There is an increase in the size of the population.	
(v) There is an increase in income tax rates.	

- (d) Calculate the value of Price Elasticity of Demand (PED) for **each** of the following scenarios. Any percentage changes are to be worked out on the original figures. (4)

Scenario	Value of PED
(i) Price increases from €25 to €30 causing quantity demand to decrease from 100 to 40.	
(ii) Price decreases from €75 to €50 causing quantity demand to increase from 125 to 150.	

- (e) With reference to **each** of your answers to (d), above, explain whether demand is elastic, inelastic or of unitary elasticity. (4)
- (f) Why is it important for sellers to be aware of the price elasticity of demand of the products that they are selling? Briefly explain your answer. (4)

(Total: 25 marks)

4. Competition is the driving force of a market economy. It encourages price and cost reductions, innovation and improvement in quality. The Office for Competition was assigned the task of protecting competition back in 1995 with the coming into force of the Competition Act. The role of the Office for Competition is to ensure that competition in the market is not distorted and that markets operate as efficiently as possible, thereby contributing to the welfare of consumers.

Malta Competition and Consumer Affairs Authority (mccaa.org.mt)

- (a) State **FOUR** features of a perfectly competitive market structure. (4)
- (b) A monopoly is able to restrict the entry of new firms into the industry. Briefly describe any **TWO** restrictions (barriers). (4)
- (c) According to economists, why would a firm that is making zero profit **not** leave the industry? (4)

- (d) Read the description below. Identify the market structure that best characterises this business and provide **THREE** reasons for your answer. (4)
 The Gozo Channel is the only company that connects Malta to its sister island, Gozo. It was a very expensive business to start. Other companies may try to compete, but the start-up costs are too high.
- (e) Give **TWO** reasons why Enemalta plc successfully charges €65 for a Residential Service Charge on Single Phase while it charges €120 for a Non-residential Service Charge on Single Phase. (4)
- (f) The extract above states that competition "encourages price and cost reductions, innovation and improvement in quality." Are there any advantages to society of **not** having competition? Explain your answer. (5)

(Total: 25 marks)

SECTION B: MACRO ECONOMICS

5. A Government budget is a forecast by a government of its expenditures and revenues for a specific period of time, usually one year. Government's revenue includes that from income tax for an individual, VAT, excise taxes on alcohol and tobacco, social security contributions and dividends on shares owned by the government, among others.

- (a) List **TWO** sources of government revenue other than the ones mentioned in the extract. (4)
- (b) (i) List **THREE** features of a direct tax. (3)
 (ii) List **THREE** features of an indirect tax. (3)
- (c) Give **TWO** examples of a direct tax and **TWO** examples of an indirect tax from the extract above. (4)
- (d) (i) What is meant by budget deficit? (1)
 (ii) How does an increase in tax revenue influence a government budget deficit? (3)
- (e) Distinguish between Equity and Economy as principles of taxation. (4)
- (f) (i) What is meant by budget surplus? (1)
 (ii) What is meant by national debt? (1)
 (iii) What is the impact of a budget surplus on government debt? (1)

(Total: 25 marks)

6. According to a news release by the National Statistics Office (NSO), data for December 2018 indicate a decline of 402 unemployed persons when compared to the same month in 2017.

- (a) List **FOUR** types of unemployment. (4)
- (b) (i) Define unemployment. In your answer, state the **TWO** data (statistics) that would be needed to measure the unemployment rate. (3)
 (ii) Give **TWO** ways how government would know how many persons are unemployed. (2)
- (c) For **ONE** of the ways you gave in (b) (ii), above, show that it may lead to inaccurate information about the number of persons unemployed. (3)
- (d) Fiscal policy is the use of taxation and government spending to influence macroeconomic objectives.
 (i) State the **TWO** fiscal policy measures that government may use to help control unemployment. (2)
 (ii) Show how **each** of these **TWO** measures operates to help control unemployment. (4)

This question continues on next page.

- (e) Distinguish between unemployment and inflation. Give **TWO** differences. (4)
- (f) Briefly explain **ONE** advantage and **TWO** disadvantages of unemployment to the unemployed person. (3)

(Total: 25 marks)

7. For developing economies in Sub-Saharan Africa, economic growth enables countries to escape the worst levels of poverty. In the developed world, economic growth is less essential.

- (a) (i) Define economic growth. (2)
- (ii) How is economic growth measured? (2)
- (b) (i) What is GDP per capita? (2)
- (ii) What is real GDP? (2)
- (c) A fictitious country, Wazikistan, whose currency is the Wazi (₩), provides the following statistics.

Year	Nominal GDP (₩000)	Price Index	Real GDP (₩000)	Population	Real GDP per capita (₩)	Growth Rate (%)
2017	8,145,524	100.0	8,145,524	458,200	17,777	n.a.
2018	8,901,286	104.5		460,500		

Copy the table above on your booklet and then calculate for 2018, (i) the Real GDP, (ii) the Real GDP per capita and (iii) the rate of economic growth. The figures of Nominal GDP are in thousands of Wazi (₩). Show workings. (3)

- (d) (i) Illustrate the effect of economic growth through the Production Possibility Curve of a country. (3)
- (ii) Identify **THREE** demand-side factors that may influence economic growth. (3)
- (e) Distinguish between developing and developed countries. Give **TWO** differences. (4)
- (f) Give **TWO** advantages and **TWO** disadvantages of economic growth. (4)

(Total: 25 marks)

8. When compared to 2015, the population increase was mainly due to net migration (immigration less emigration). The revised total population of Malta at the end of 2016 stood at 460,297. Persons under 18 made up 17.0 per cent of the total population, while a further 18.8 per cent were aged 65 and over.

Adapted from the website of The National Statistics Office (www.nso.gov.mt)

- (a) (i) Define birth rate. (2)
- (ii) Define death rate. (2)
- (b) From Malta’s perspective:
 - (i) what is immigration? (2)
 - (ii) what is emigration? (2)
- (c) Give **TWO** effects of an ageing population on **each** of the following:
 - (i) government financing; (2)
 - (ii) individuals. (2)
- (d) Which **TWO** demographic statistics could be used to show whether a country is a developed or developing country? For **each** of the demographic statistics you select, state whether they should be high or low to show that the country is developed. (4)
- (e) Briefly describe **FOUR** factors that can influence life expectancy. (4)
- (f) Evaluate the impact of an increase in the retirement age on the economy. At least **ONE** positive impact and **ONE** negative impact must be mentioned. (5)

(Total: 25 marks)