



SUBJECT: **Economics**
 PAPER NUMBER: I
 DATE: 17th September 2020
 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. The below table provides information about the total product, the marginal product and the amount of labour needed for a firm in the manufacturing sector.

(i) Labour	(ii) Total Product	(iii) Marginal Product
0	0	--
1	?	25
2	?	75
3	?	150
4	375	?
5	?	100
6	550	?
7	?	50
8	590	?

- (a) What is meant by division of labour? In your answer, give **ONE** example of how division of labour is used in the production of a good. (4)
- (b) In your booklet, copy and complete columns (ii) and (iii). (4)
- (c) On the graph paper provided, plot the marginal product curve. (4)
- (d) (i) Explain the law of diminishing returns. (3)
 (ii) How many units of labour are being employed before diminishing returns set in? (1)
 (iii) On your diagram, mark with letter (**A**) the point at which diminishing returns set in. (1)
- (e) Many firms decide that expansion is the way forward for their business to continue succeeding and moving forward. Yet, many firms remain small. Give **TWO** reasons why small firms exist in an economy. (4)
- (f) State if the following statements are true or false. Justify your answer in each case:
 (i) A decreasing marginal product tells us that the marginal cost must be rising. (2)
 (ii) When marginal cost is above average total costs, average total cost must be falling. (2)

(Total: 25 marks)

Please turn the page.

2. Globalisation has changed business as we know it. This phenomenon has led to the “multinational”—companies whose reach can seemingly take over every inch of the world. The location decisions of multinationals are not done solely on a country basis but on a global basis. Such decisions also require that factors of production are mobile.
- (a) Explain what is meant by a multinational firm. Give **THREE** examples of multinational organisations operating in Malta. (5)
- (b) Government intervenes in the location decision of a firm.
 (i) Mention **TWO** institutions influencing the location of industry in Malta. (2)
 (ii) What is the main role of each of these **TWO** institutions? (2)
- (c) For each of the following examples, state whether the person is engaging in occupational mobility, geographical mobility or both:
 (i) A school teacher in Malta, is moving to Brussels to work as a translator with the EU;
 (ii) An electrician working in Glasgow, Scotland (UK), is moving to London (UK) because electricians in London earn more than those in Glasgow;
 (iii) An American actor in the USA becomes the President of the USA;
 (iv) A cleaner from Venezuela moves to Malta to become a supermodel. (4)
- (d) Briefly describe **ONE** barrier to the occupational mobility of labour and **ONE** barrier to the geographical mobility of labour. (4)
- (e) Explain **TWO** factors influencing the location of firms in the secondary sector of production. (4)
- (f) Give **TWO** possible reasons why a foreign company would wish to set up business in Malta. (4)
- (Total: 25 marks)**

3. There are quite a few different market structures that can characterise an economy. The two extremes of market structures are perfect competition and monopoly. Each of them has its own set of characteristics and assumptions, which in turn affect the decision-making of firms and the profits they can make.

Adapted from quickonomics.com

- (a) List **FOUR** characteristics of a perfectly competitive market. (4)
- (b) List **THREE** characteristics of a monopolistic market. Provide a real-life example of a monopolistic firm operating in Malta. (4)
- (c) A monopoly can restrict competition in several ways. Explain **TWO** possible barriers to entry into the market. (4)
- (d) Pippa is employed as a shop assistant with a salary of €20,000 per year. She is thinking of leaving her employment to open an ironmongery shop. To start off her business, she will be using the €40,000 in her bank account on which she gets 5% interest per year. How much profit should Pippa make per year to make the enterprise worth it? In your answer, state the term that economists give to this amount of profit. (5)
- (e) Is it possible for Pippa to charge different customers different prices for the same good? Give **TWO** reasons for your answer. (4)
- (f) Briefly describe **ONE** possible advantage and **ONE** possible disadvantage of price discrimination. (4)
- (Total: 25 marks)**

SECTION B - MACRO ECONOMICS

4. The table below provides information on the Maltese government's finances for the years 2015 – 2018.

Period	Total Revenue € million	Total Expenditure € million	Balance € million	Deficit/Surplus
2015	3,719.9	3,818.1	?	?
2016	3,872.0	3,777.7	?	?
2017	4,438.8	4,053.5	?	?
2018	4,764.2	4,528.6	?	?

Source: National Statistics Office (NSO) 2019

- (a) Define:
- (i) budget deficit; (2)
 - (ii) national debt. (2)
- (b) Describe **TWO** ways how a government may finance its budget deficit. (4)
- (c) From the table provided calculate the budget surplus or budget deficit of the Maltese economy for the years 2015 - 2018. In your answer, state whether each of the amounts you calculated is a surplus or a deficit. (4)
- (d) Taxes are an important source of government revenue.
- (i) List **ONE** source of government revenue other than taxation. (1)
 - (ii) For each of the following taxes, identify whether they are progressive, regressive or proportional:
 - corporate tax; (1)
 - value added tax; (1)
 - income tax; (1)
 - excise duty on cigarettes. (1)
- (e) The national debt is often viewed as a burden on the community. Give **TWO** instances when this is true. (4)
- (f) Imagine you are a policy maker tasked to argue in favour of either introducing a direct or an indirect tax. Provide your recommendation by describing **ONE** advantage of the form of taxation you would recommend and **ONE** disadvantage of the other form of taxation. (4)
- (Total: 25 marks)**

Please turn the page.

5. The table below illustrates labour market statistics for Malta for the period 2016 – 2018.

Period	Labour Supply (thousand)	Gainfully Occupied (thousand)	Unemployed (thousand)	% Unemployed
2016	214.8	204.6	10.2	?
2017	226.0	216.8	9.2	?
2018	243.5	234.4	9.1	?

Source: National Statistics Office (NSO) 2019

- (a) Define the following terms:
- (i) labour supply; (2)
 - (ii) gainfully occupied; (2)
 - (iii) unemployment. (2)
- (b) Describe **TWO** types of unemployment. (4)
- (c) From the table provided calculate, to 2 decimal places, the unemployment rate for the years 2016 – 2018. (3)
- (d) (i) For each of the two types of unemployment you described in (b), state whether they are associated with aggregate demand or not. (2)
- (ii) Explain why it is important to be aware of the cause of unemployment. (2)
- (e) Imagine you are a policy maker. Briefly describe **ONE** measure for each of the **TWO** types of unemployment mentioned in (b), above, that you would recommend to reduce the unemployment rate. (4)
- (f) Discuss **ONE** possible advantage and **ONE** possible disadvantage of unemployment. (4)
- (Total: 25 marks)**

6. "Historically nothing has worked better than economic growth in enabling societies to improve the life chances of their members, including those at the very bottom."

Source: *One Economics, Many Recipes: Globalization, Institutions and Economic Growth* (2007)

- (a) Define:
- (i) economic growth; (2)
 - (ii) economic development. (2)
- (b) How is economic growth measured? Illustrate by means of a numerical example. (5)
- (c) Briefly describe **TWO** possible causes of economic growth. (4)
- (d) (i) Define GDP per capita. (2)
- (ii) How is it possible for GDP per capita to increase at times of increasing population? (2)
- (e) Explain **TWO** features other than low levels of GDP per capita that can classify a country as a less developed one. (4)
- (f) If country A registers a higher economic growth rate than country B, does it necessarily mean that country A's welfare exceeds that of country B? Justify your answer by providing **TWO** possible reasons. (4)
- (Total: 25 marks)**



SUBJECT:	Economics
PAPER NUMBER:	IIA
DATE:	18 th September 2020
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. (a) Define the terms:
- (i) factors of production; (2)
 - (ii) capital; (2)
 - (iii) entrepreneurship. (2)
- (b) (i) Draw a diagram showing a production possibility curve (PPC). Label the vertical axis "consumer goods" and the horizontal axis "capital goods". (1)
- (ii) Use your diagram to illustrate what would happen if new technology were to be developed for producing both consumer goods and capital goods. (1)
- (iii) Use your diagram to illustrate how the concept of opportunity cost is shown on the PPC. Explain this illustration. (4)
- (c) Analyse the main features of market and planned economies by:
- (i) stating the basic questions each system is attempting to solve, and (1)
 - (ii) describing **TWO** contrasting features. (4)
- (d) Briefly describe **TWO** advantages of market economies and **TWO** advantages of planned economies. (8)

(Total: 25 marks)

2. (a) Define the terms:
- (i) private sector; (2)
 - (ii) public sector; (2)
 - (iii) privatisation. (2)
- (b) Two limited liability companies producing soft drinks decide to integrate. Identify whether this integration is:
- (i) a merger or a takeover;
 - (ii) a vertical integration or a horizontal integration.
- In each case, briefly explain your answer, defining each of the **FOUR** terms above. (6)
- (c) Distinguish between private-sector firms and public-sector firms by reference to their:
- (i) main objective,
 - (ii) source of raising funds, and
 - (iii) board of directors. (6)
- (d) (i) Explain **ONE** means of measuring the relative importance of each sector. (3)
- (ii) Give **TWO** reasons to show why the public sector is important for the Maltese economy. (4)

(Total: 25 marks)

Please turn the page.

3. (a) Define the terms:
- (i) market; (1)
 - (ii) demand; (2)
 - (iii) price elasticity of supply. (2)
- (b) (i) Draw a diagram clearly showing (i) an effective price ceiling and (ii) an effective price floor in the rental property market. Label both axis and curves. (2)
- (ii) Explain how an effective price ceiling affects the quantity demanded and the quantity supplied of rental property. Illustrate your answer by means of a diagram. (3)
- (c) Government revenue from the excise tax on cigarettes increases every time that government increases this tax. Explain why this is so and illustrate by means of diagrams. (4, 3)
- (d) Write a short report explaining to your friend under what particular **FOUR** circumstances would she increase her total revenue following a cut in the price of her product. (8)
- (Total: 25 marks)**

4. (a) (i) State the term used to describe that labour is not demanded for its own sake but for what it produces. (1)
- (ii) Briefly explain **TWO** factors that might determine the supply of labour for ST Micro Electronics. (4)
- (b) An employer is looking to fill a job vacancy in her business. Should she be visiting maltaemployers.com **or** jobsplus.gov.mt? Explain your answer. (5)
- (c) Ceteris paribus, as the hourly wage rate increases, an individual may or may not want to work longer hours. Discuss why this is so by means of a diagram. (7)
- (d) Briefly describe **TWO** arguments for and **TWO** arguments against minimum wage legislation. (8)
- (Total: 25 marks)**

SECTION B: MACRO ECONOMICS

5. (a) Briefly explain the **THREE** methods of measuring National Income (NI). (6)
- (b) Describe **TWO** problems encountered in measuring the National Income (NI) and propose **ONE** solution for each of the problems described. (6)
- (c) (i) Explain in what way real Gross Domestic Product (GDP) differs from nominal Gross Domestic Product (GDP). (4)
- (ii) Describe **THREE** necessary corrections to Malta's nominal GDP to make it possible to compare the standard of living of Malta to that of Sweden, which does not use the Euro as its national currency. (3)
- (d) The Human Development Index (HDI) is an alternative measurement of living standards. Give **THREE** possible reasons why the HDI may better capture the Quality of Life than NI statistics. (6)
- (Total: 25 marks)**

6. (a) Explain what is meant by monetary policy and describe the important balance the central bank should strike when formulating its policies. (6)
- (b) Explain how each of the following would influence (i) the supply of money and (ii) the rate of interest:
- the Central Bank of Malta sells treasury bills to commercial banks. (3)
 - commercial banks are required to decrease the deposits that they hold on account with the Central Bank of Malta. (3)
- (c) Explain **THREE** ways in which a central bank differs from a commercial bank. (6)
- (d) (i) Why do commercial banks lend money? (3)
- (ii) Briefly describe **ONE** possible beneficial effect and **ONE** possible detrimental effect of increased bank lending on an economy. (4)

(Total: 25 marks)

7. (a) (i) What is meant by international trade? (2)
- (ii) Briefly describe **TWO** reasons why international trade is important for an economy. (4)
- (b) (i) List the **THREE** main components of the Balance of Payments Account. (3)
- (ii) Explain **ONE** measure by which a government may correct a balance of payments deficit. (2)
- (c) Briefly explain the main difference between absolute advantage and comparative advantage. Your answer is to include **ONE** or more numerical examples. Comment on the example/s you give. (8)
- (d) Evaluate **THREE** reasons why Malta would be better off remaining as a member of the Eurosystem. (6)

(Total: 25 marks)

8. (a) The estimated total population of Malta and Gozo at the end of 2018 stood at 493,559, up by 3.8 per cent when compared to 2017. Describe **THREE** demographic rates that could have caused the increased population. (6)
- (b) Malta as at end 2018 had a population density of 1,562 persons per km² while Luxembourg had a population density of 237 persons per km². Does this imply that Malta is overpopulated from an economic perspective? In your answer, define what is meant by optimum population, under population and over population. (5)
- (c) (i) What is meant by an increasing dependency ratio? (2)
- (ii) Briefly describe **TWO** economic effects of an ageing population. (4)
- (d) An increasing population can have both benefits and costs on the economy. Discuss **TWO** benefits and **TWO** costs of an increasing population. (8)

(Total: 25 marks)



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

Questions carry 25 marks each.

SECTION A: MICRO ECONOMICS

1. Every year the Luna Park sets up in Manoel Island. However, the Luna Park cannot have everything it wants. It has to make some choices. For example, it has to decide how many popcorn stands and how many cotton candy stands to have scattered around the Luna Park. The Luna Park committee made up a table of the different possible combinations. The committee has to decide what combination is ideal for this year's Luna Park set up.

Combinations	Popcorn Stands	Cotton Candy Stands
A	0	10
B	1	9
C	2	7
D	3	4
E	4	0

- (a) (i) List the **FOUR** factors of production that a business such as the Luna Park uses. (4)
(ii) State whether the main product of the Luna Park is a good or a service. (1)
- (b) (i) Explain what is meant by opportunity cost. (3)
(ii) Name the **TWO** basic economic concepts that give rise to opportunity cost. (2)
- (c) On the graph paper provided, produce a graph for the number of popcorn stands and cotton candy stands using the data above. (4)
- (d) (i) What is the graph plotted in part (c) called? (1)
(ii) Compute the opportunity cost of a popcorn stand when moving from combination **B** to combination **C** and from combination **C** to combination **D** in the table above. (2)
- (e) Briefly describe **ONE** similarity and **ONE** difference between merit goods and public goods. (4)
- (f) Briefly describe **ONE** advantage and **ONE** disadvantage of market economies. (4)

(Total: 25 marks)

Please turn the page.

2. Google has announced it is acquiring Fitbit for \$2.1 billion. The deal is expected to go through early 2020 following all of the relevant approvals.

Google’s CEO wrote that “by working closely with Fitbit’s team of experts, and bringing together the best AI, software and hardware, we can help spur innovation in wearables and build products to benefit even more people around the world. Google also remains committed to Wear OS and our ecosystem partners, and we plan to work closely with Fitbit to combine the best of our respective smartwatch and fitness tracker platforms.”

Computer world (www.computerworld.com)

- (a) State **TWO** external sources of finance for a company such as Google and briefly describe **ONE** of them. (4)
- (b) (i) Describe the **TWO** different ways a firm may take to grow. (4)
 (ii) State the type of growth strategy that Google adopted. (1)
- (c) Both Google and Fitbit are limited liability companies. What does this mean for the shareholders and for the suppliers of Google and Fitbit? (5)
- (d) Identify the direction of growth that Google is taking by “acquiring Fitbit”. Explain your answer. (4)
- (e) Explain the difference between the public and private sectors in terms of ownership and control (organisation). (4)
- (f) State **THREE** motives why firms seek to expand their business. (3)

(Total: 25 marks)

3. This question relates to supply and demand. The table below represents the market for flour.

Price of flour (per kg)	Quantity Demanded of flour (kgs)	Quantity Supplied of flour (kgs)
10	0	10
8	4	8
6	6	6
4	8	4
0	10	0

- (a) (i) State the law of demand in microeconomics. (2)
 (ii) What is meant by supply in microeconomics? (1)
 (iii) What is meant by the Price Elasticity of Demand (PED)? (2)
- (b) Briefly explain **TWO** non-price factors that may affect the demand for flour. (4)
- (c) On the graph paper provided, plot the demand and supply curves of flour on the same graph. Mark the equilibrium price P and the equilibrium quantity Q. (5)
- (d) For a price ceiling to be effective, should it be set above, below or at the market price? Draw a diagram to substantiate your answer. (4)
- (e) Explain the effect of an increase in the supply of flour on the equilibrium price and the equilibrium quantity. Illustrate your answer by means of a diagram. (3)
- (f) Give **TWO** reasons why knowledge of PED is important to sellers. (4)

(Total: 25 marks)

4. The Socialist-led Spanish government that emerged last summer had, by the end of 2018, approved a hike in the statutory minimum wage, which increased by 22% - the highest in more than four decades in Spain and the most significant among EU countries in 2019,
Adapted from Eurofound (eurofound.europa.eu)

- (a) On the booklet provided, complete the following sentences using the words listed in the table below. **Not** all words provided must be used. (5)

customers	monopoly	prices
employers	monopsony	wages
government	percentage	workers

Trade unions represent (i) _____. The trade unions negotiate with (ii) _____ to determine (iii) _____, hours worked and working conditions. A strong trade union is one where a large (iv) _____ of the workforce are members of the trade union. From an economic point of view, trade unions create a (v) _____ in the labour market.

- (b) Explain **TWO** factors that may give rise to a shift in the demand for labour. (4)
 (c) Give **FOUR** arguments to explain the need for Jobsplus, (previously called the Employment and Training Corporation (ETC)). (4)
 (d) Give **FOUR** arguments for the need of the Employment and Industrial Relations Act. (4)
 (e) Analyse the effect on Spain’s labour market of setting a national minimum wage above the equilibrium. Use a diagram to support your analysis. (4)
 (f) Give **FOUR** reasons for wage differentials within the same occupation. (4)

(Total: 25 marks)

Please turn the page.

SECTION B: MACRO ECONOMICS

5. The table below shows the nominal GDP, the GDP deflator and the size of the population for Malta for the years 2015 – 2018.

Year	Nominal GDP € million	GDP deflator	Real GDP € million	Population	Nominal GDP per capita (€)
2015	9,658.7	100.00	9,658.7	439,691	?
2016	10,365.6	100.90	?	450,415	?
2017	11,332.1	102.18	?	460,297	?
2018	12,378.8	103.95	?	475,701	?

- (a) (i) What is meant by Malta's National Income (NI)? (2)
(ii) Briefly describe how the National Income is measured by using the expenditure approach. (4)
- (b) Name **TWO** injections into and **TWO** withdrawals (leakages) from the circular flow of income. (4)
- (c) From the information provided in the table:
(i) Which is the base year? Explain why. (2)
(ii) Work out the real GDP for the years 2016 – 2018. (2)
- (d) From the information provided in the table work out the nominal GDP per capita for the years 2015 – 2018. Answer to 1 decimal place. (2)
- (e) Describe the problem of double counting when measuring the NI using the output approach by providing **ONE** example. (4)
- (f) The Human Development Index (HDI) is an alternative measure of living standards which is based on three sets of indicators. One of the indicators is the real GDP.
(i) Name **ONE** other indicator. (1)
(ii) Explain **TWO** benefits of using the HDI. (4)

(Total: 25 marks)

6. The Eurosystem uses a number of monetary policy instruments approved by the governing council of the European Central Bank to achieve its monetary policy objectives. These instruments steer short-term interest rates, manage the liquidity situation in the banking system, as well as signal the general stance of monetary policy.
- (a) (i) What is the Eurosystem comprised of? (2)
(ii) What is monetary policy? (2)
- (b) (i) What are interest rates? (2)
(ii) Why is the rate of interest considered as the price of money? (2)
- (c) Explain what happens to the supply of money when:
(i) The central bank takes a tight monetary stance? (2)
(ii) The central bank takes a loose monetary stance? (2)
- (d) If the central bank raises the base rate of interest, explain what monetary policy instrument the central bank would be using and what would happen to the supply of money. (4)
- (e) By referring to their functions, explain **TWO** ways in which a central bank differs from a commercial bank. (4)
- (f) (i) Why do commercial banks lend money? (2)
(ii) Money lending increases the money supply. Explain briefly how this occurs by means of **ONE** example. (3)

(Total: 25 marks)

7. Economic globalisation is characterised by an increase in international trade and a growing interdependence of economies at a global level. International trade often leads to certain levels of international specialisation and trade. The table below shows the production of cars and motorcycles in Germany and Vietnam. Both countries are dedicating half of their resources to the production of cars and the other half to the production of Motorcycles.

Country	Cars	Motorcycles
Germany	500	800
Vietnam	200	500
Total	700	1,300

- (a) (i) What is meant by international trade? (2)
 (ii) Give **ONE** reason why international trade is important for an economy. (2)
- (b) (i) List **TWO** main components of the Balance of Payments Account. (2)
 (ii) Describe **ONE** measure by which a government may correct a balance of payments deficit. (3)
- (c) Explain **TWO** ways how Malta’s economy may be affected if its currency, the Euro, decreases in value when compared to the British Sterling. (4)
- (d) Identify from the table above, which country has a comparative advantage in producing motorcycles. Explain your answer. (4)
- (e) Briefly explain the difference between absolute and comparative advantage. (4)
- (f) Evaluate **TWO** reasons why Malta would be better off staying as a member of the Eurosystem. (4)

(Total: 25 marks)

8. Below is a list of the populations of four European countries at end 2018 and their respective land area.

Country	Land Area (km ²)	Population (persons)
Iceland	102,775	356,991
Luxembourg	2,586	613,894
Malta	316	493,559
Monaco	2.02	38,300

Source: National Statistics Office (NSO 2019)

- (a) Define the following:
 (i) death rate; (2)
 (ii) net migration. (2)
- (b) What is meant by optimum population, over population and under population from an economic perspective? (2, 1, 1)
- (c) Work out the population density for each of the countries listed in the table. Which is the most densely populated country? (4)
- (d) The total number of births in Malta during 2018 was 4,444 while the total number of deaths was 3,688. Using this information and the relevant figure from the data above, calculate the birth rate, the death rate and the natural growth rate for Malta for 2018. (2, 2, 1)
- (e) Briefly describe **TWO** economic effects of an ageing population. (4)
- (f) An increasing population can have both benefits and costs on the economy. Discuss **ONE** such possible benefit and **ONE** such possible cost of an increasing population. (4)

(Total: 25 marks)