

IM SYLLABUS (2016)

ECONOMICS

IM08

SYLLABUS

**Economics IM08
Syllabus**(Available in September)
1 Paper (3hrs)**Aim**

This syllabus aims at giving a good grasp of basic economic concepts. It aims at familiarising students to concepts which are used to explain the functioning of the economy. It does not aim at an advanced analysis of the concepts presented in the syllabus. The syllabus focuses on descriptions of concepts and their inter-relationship. Calculations and in-depth analysis are left out of this syllabus. Although graphical understanding of the concepts is important at this level and features in the syllabus, drawing economics graphs to-scale is not required at this level.

Scheme of Assessment

A three (3) hour paper will be set. The paper will consist of two sections, each carrying 50% of the marks. Section A will be based on Microeconomic concepts while Section B will be based on Macroeconomic concepts. Each section will have five essay questions, from which candidates have to answer three. All questions presented will reflect the material covered in the syllabus Content.

Content**Micro-economics**

Topic	Description	Areas
The Basic Economic problem	Scarcity and knowledge of resource classification; entrepreneurship; classification of 'goods' (consumer/capital, free/economic, public/merit); choice and opportunity cost; the production possibility boundary.	<ul style="list-style-type: none"> The issue of scarcity and resource classification; choice and opportunity as described in theory (production possibility boundary) and applied in practice.
The Function of an Economy	Definition; specialisation by product and by process; measuring productivity; classification of production (primary/secondary/tertiary) and reference to data from the Maltese economy; the stakeholders in production and their reward.	<ul style="list-style-type: none"> Production and productivity and the various classifications of production; production in the context of the Maltese economy and the relevant stakeholders; relevance of profit in production.
The Demand Curve	The concept of individual utility and changes in utility as prices change; the Law of Demand and exceptions to the Law; non-price determinants of demand; consumer surplus.	<ul style="list-style-type: none"> Theory of Utility; Theory of Demand and Consumer Surplus
The Supply Curve	Price and non-price determinants of supply; producer surplus.	<ul style="list-style-type: none"> Theory of Supply and Producer Surplus.
Price Determination and Disequilibrium	Equilibrium or market clearing price; shortages and surpluses; ceilings and floors; shifts in demand and supply causing disequilibrium. The effects of indirect taxes and subsidies; interrelationships between markets.	<ul style="list-style-type: none"> Market equilibrium and disequilibrium. Application of indirect taxes and subsidies; complements and substitutes; derived and composite demand.
Price Elasticity of Demand	Price, income and cross elasticity of demand; price elasticity of supply; definitions, calculations, graphs and importance of knowledge of elasticity to producers and government.	<ul style="list-style-type: none"> Concept of Elasticity and its applications to Demand and Supply including Income Elasticity of Demand and Cross Elasticity of Demans
Markets and Resource Allocation	Resource allocation under a competitive and non-competitive market; comparisons between perfect competition and non-competitive markets. Graphical representations will not be required but knowledge of terms like 'price discrimination', 'collusion', and advertising wars are.	<ul style="list-style-type: none"> Perfect Competition; non-competitive markets and application of terms such as 'price discrimination', 'collusion' and 'advertising wars'.
Economic Efficiency and Market Failure	Static vs dynamic efficiency; productive efficiency; allocative efficiency; market failures (missing markets, externalities, absence of competition, asymmetric market information, factor immobility and inequality).	<ul style="list-style-type: none"> Market failure (inefficiency) and its effects such as non-competition, externalities, factor immobility and inequality as well as asymmetric information.
Public and Merit Goods	Under-provision of public and merit goods, leading to a loss in welfare; conflicting objectives; market distortions; public choice theory; favouring minorities; regulating monopolies, the environment and privatised companies.	<ul style="list-style-type: none"> Theory of Public and Merit goods and effects on welfare; Theory of Public Choice; Measures aimed at addressing market distortions.

Macro-economics

Topic	Description	Areas
The scope of macroeconomics	The study of macroeconomics examines the economy as a whole. It deals with aggregate demand and supply together with output, employment and prices at national level.	<ul style="list-style-type: none"> • The major macroeconomic objectives.
The circular flow of income	The circular flow of income is a model meant to explain how money flows between firms and households. However, not all incomes get passed on directly since some income is withdrawn and some is injected from outside.	<ul style="list-style-type: none"> • The circular flow of income • The relationship between withdrawals and injections • Equilibrium in the circular flow of income
Measuring national income	The concept of national income as an actual measurement of the level of economic activity in a country.	<ul style="list-style-type: none"> • The Expenditure, Income and Output methods of calculating GDP. • Difficulties in measuring, interpreting and making comparisons. • Practical examples of how GDP figures are used in practice.
Consumption and saving	Students should understand the types of consumption and saving, as well as the determinants of consumption and saving.	<ul style="list-style-type: none"> • The consumption and saving functions • Determinants of consumption and saving – practical examples • Average and marginal propensities to consume and to save.
Investment	Investment is the purchase of capital goods and differs from savings. An understanding of the determinants of investment, excluding the Accelerator theory, is necessary.	<ul style="list-style-type: none"> • Definition of investment. • Factors affecting planned investment and practical examples. • Marginal efficiency of capital.
Government spending, exports and imports	The government spending, exports and imports are an important part of the total demand in the economy so students should have an understanding of these terms.	<ul style="list-style-type: none"> • Reasons for government spending • Definition of Budget deficit and surplus • Definition of exports and imports • Factors influencing exports and imports

Aggregate Demand	Students should understand what is Aggregate Demand including its graphical explanation. They should also understand its shifts and how the multiplier affects AD.	<ul style="list-style-type: none"> • Explanation of $AD=C+I+G+X-M$ • The AD curve • Shifts in AD and their determinants • The multiplier • The multiplier and injections • The multiplier and government spending and taxation
Aggregate Supply	The aggregate supply is the level of output in the whole economy at any given level of average prices. It may shift outwards or inwards. An appreciation of the SRAS and LRAS is necessary.	<ul style="list-style-type: none"> • Definition of SRAS and graphical explanation • Determinants of SRAS shifts • Definition of LRAS and graphical explanation (both Classical and Keynesian) • Determinants of shifts in LRAS
Equilibrium Output	An understanding that the economy is in equilibrium where $AD=AS$	<ul style="list-style-type: none"> • Equilibrium in the short run • Equilibrium in the long run (Classical and Keynesian models) • Changes in the Price levels and output levels associated with changes in AD and AS • Application of AD and AS in real life
Economic Growth	Students should be able to explain economic growth both in nominal and real terms. An understanding of how economic growth can be increased is also necessary.	<ul style="list-style-type: none"> • Definition of economic growth • The business cycle and economic growth • The output gap • The production possibility curve and economic growth • Causes of economic growth. • Economic growth and standard of living (is it always true?) in practice • Other factors affecting the standard of living in practice • Arguments in favour and against economic growth.
Unemployment	Here the student will obtain an understanding of the meaning of unemployment as well as the causes of different types of unemployment together with the costs of unemployment	<ul style="list-style-type: none"> • Definition and measurement of unemployment • Types of unemployment • Costs of unemployment in practice
Inflation	Students are expected to study inflation, its causes and its costs	<ul style="list-style-type: none"> • Definition of inflation and deflation • Measurement of inflation (RPI and CPI) • Causes of inflation • Costs of inflation and deflation

<p>The Balance of Payments</p>	<p>The Balance of Payments accounts are split in the current account and in the capital and financial account. Students are only required to concentrate on the current account rather than the capital and financial account.</p>	<ul style="list-style-type: none"> • Definition of the balance of payments • Explanation of the current account • Deficits and surpluses in the current account • Causes of changes in the current account balance • Advantages and disadvantages of sustained surpluses and deficits in the current account • The difference between government deficit and balance of payments deficit
<p>Fiscal Policy</p>	<p>Fiscal policy affects Aggregate Demand, Inflation, Unemployment, the Balance of Payments and Economic Growth. Students should be familiar with fiscal measures and how these can be applied to influence the economy.</p>	<ul style="list-style-type: none"> • Definition of fiscal policy and the main components of fiscal policy. • Effects of fiscal policy on AD, inflation, unemployment, Balance of Payments and Economic Growth. • Fiscal policy and the multiplier • Fiscal policy and trade offs
<p>Supply side Policies</p>	<p>Students should have a good grasp of what are supply side policies and how these can be used to increase the average rate of growth, reduce inflation and reduce unemployment.</p>	<ul style="list-style-type: none"> • Definition of supply side policies • Supply side policies which affect the labour market • Supply side policies which affect the capital market • Supply side policies which affect the goods market • The effect of supply side policies on Aggregate Demand • How supply side policies work in practice
<p>Monetary Policy and the Central Bank</p>	<p>Students should understand that changing the interest rate can influence the economy. They should be able to explain how the interest rate affects AD, Inflation, Unemployment, Economic Growth and the Current account of the Balance of Payments. It must be clear that monetary policy is an action by the Central Bank and students should get a good idea of the functions of the Central Bank in an economy.</p>	<ul style="list-style-type: none"> • Definition of money, monetary policy and the rate of interest • The three motives for demanding money (transactionary, speculative and precautionary) • Interest rate and AD • How interest rate can be used to control inflation, unemployment, economic growth and the current balance of the BOP. • Monetary policy and trade offs • The functions of the European Central Bank

Recommended Textbook

Anderton, A.
Economics AS Level

Further Readings

Briguglio, L.
Macroeconomics and the Maltese Economy

Maunder, P., Myers, D., & Wall, N.
Economics Explained (3rd Ed.). 2000

Grant, S.J.
Stanlake's Introductory Economics. 2000

On-line Resources

www.nso.gov.mt

www.centralbankmalta.org

ec.europa.eu/eurostat

www.oecd.org/

<http://www.federalreserve.gov/>

www.imf.org/

econ.worldbank.org/

www.nber.org/

www.bankofengland.co.uk/statistics/

www.ecb.int/