

MATRICULATION AND SECONDARY EDUCATION CERTIFICATE EXAMINATIONS BOARD
UNIVERSITY OF MALTA, MSIDA
MATRICULATION CERTIFICATE EXAMINATION
ADVANCED LEVEL
MAY 2012

SUBJECT:	ECONOMICS
PAPER NUMBER:	I
DATE:	15 th May 2012
TIME:	4.00 p.m. to 7.00 p.m.

Answer **FOUR** questions. **TWO** from **each** Section. All questions carry equal marks. This paper carries 60% of the global mark.

Section A

1. a) Discuss three factors that can influence the demand for umbrellas. (9 marks)
b) Discuss three factors that can influence the supply of umbrellas. (9 marks)
c) Evaluate the possible impact of an increase in the price of aluminium on the supply of umbrellas. (7 marks)
2. a) Define the concept of marginal utility. What analysis is it used for? (7 marks)
b) Through the graph of the budget line, explain its meaning when a household is faced by two baskets of goods. (6 marks)
c) If the income of a household decreases, what is the effect on the budget line and how does this affect the two baskets of goods? Use a graph to explain this change. (6 marks)
d) In reference to (c) above, what is the effect if the price of one basket of goods changes but not the income of the household? Explain using a graph. (6 marks)
3. a) Define elasticity of demand and elasticity of supply. (6 marks)
b) Use examples to distinguish between price elasticity of demand, cross elasticity of demand and income elasticity of demand. (9 marks)
c) In what ways does price elasticity of demand influence the decisions of suppliers? Use a numeral example to explain. (10 marks)
4. a) Describe the difference between variable costs and fixed costs. (8 marks)
b) Use a graph to explain why a cost curve is U shaped in the short run. (8 marks)
c) Use a graph to distinguish between economies and diseconomies of scale. (9 marks)
5. a) What are the characteristics of perfect competition? (8 marks)
b) Distinguish between monopoly and monopolistic competition. (8 marks)
c) Use one graph to explain the difference between profit maximisation under monopoly and under perfect competition. (9 marks)

6. a) Explain the concept of market failure and provide examples. (8 marks)
- b) Explain the free rider problem and the context in which this happens. (8 marks)
- c) Use examples to explain the difference between merit goods and public goods. (9 marks)

Section B

7. a) What does the gross domestic product measure and how can it be measured? (8 marks)
 - b) Does the GDP include all activity in an economy? Give examples. (8 marks)
 - c) Does higher GDP growth lead to more income for everyone? Discuss. (9 marks)
8. a) Define inflation and mention two types of measurements used. (8 marks)
 - b) In what ways does inflation impact on household decisions? (8 marks)
 - c) What are the methods used by governments to influence the inflationary process? (9 marks)
9. a) Discuss three types of unemployment. (9 marks)
 - b) Why is unemployment considered as undesirable for society? (8 marks)
 - c) Are there any policies which governments can use to encourage more people to become employed? Discuss. (8 marks)
10. a) Is there a difference between a government budget deficit and government debt? Elaborate on your answer. (6 marks)
 - b) Explain how governments can use fiscal policy. (7 marks)
 - c) "Countries sometimes need to run up debts". Do you agree with this statement and, if so, under what circumstances is this acceptable? (12 marks)
11. a) What does the money supply of a country consist of? (6 marks)
 - b) Describe what the quantity theory of money explains. (8 marks)
 - b) What is the role of the Central Bank of Malta with Malta as part of the Eurozone? (11 marks)
12. a) Mention three types of exchange rate systems? (6 marks)
 - b) Is it possible for government to influence the exchange rate system and how is this done?
(8 marks)
 - c) What are the implications for trade if there is a fall in the exchange rate? Discuss by offering a numerical example. (11 marks)

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MATRICULATION CERTIFICATE EXAMINATION

ADVANCED LEVEL

MAY 2012

SUBJECT:	ECONOMICS
PAPER NUMBER:	II
DATE:	17 th May 2012
TIME:	9.00 a.m. to 12.00 noon

Answer *three* questions, at least one from Section A and one from Section B. All questions carry equal marks. This paper carries 40% of the global mark.

Section A**Question 1**

The demand for holidays is represented by the following equation: $Q_d = 5000 - 100P$. The demand schedule up to a price of 25 is shown below.

Price (P) [Eur]	Quantity demanded (Q_d) [Units]
5	4500
10	4000
15	3500
20	3000
25	2500

- Complete the demand schedule in the table above up to a price of 50, in increments of 5, and draw the demand curve. (6 marks)
- What is it about the equation above that makes the demand curve downward sloping and a straight line? (6 marks)
- Calculate the price elasticity of demand for each point of the demand schedule above. (9 marks)
- Why are the values for the price elasticity of demand different / the same for each point? What is the implication of this when interpreting whether holidays are price elastic or inelastic? (6 marks)
- A tourist agency is interested in understanding the relationship between air travel and cruise travel. Suggest an elasticity measure which would assist this firm in understanding this relationship, explaining how the firm would go about calculating this elasticity and interpreting the results. (6 marks)

Total: 33 marks

Question 2

The following table provides the total cost data for an electronic components manufacturer.

Output (units)	Total Variable Cost (Eur)	Total Cost (Eur)
0	0.0	10.0
1	4.8	14.8
2	12.5	22.5
3	17.9	27.9
4	25.8	35.8
5	41.3	51.3
6	69.0	79.0
7	113.8	123.8

- What is the manufacturer's total fixed cost? Give two examples of such types of costs. (4 marks)
- For each output level, calculate the Average Fixed Cost (AFC), the Average Variable Cost (AVC), the Average Cost (AC), and the Marginal Cost (MC). (12 marks)
- Plot the AFC, AVC, AC and MC curves in one graph. (4 marks)
- Why is the minimum point of the AVC curve at a lower level of output than the minimum point of the AC curve? (5 marks)
- What is the relationship between the average cost and the marginal cost? Refer to the graph in your answer, to (c) above, comparing output levels where $AC > MC$, and vice versa. (8 marks)

Total: 33 marks

Question 3

A firm that faces a downward-sloping demand curve sells its product at the following prices:

Quantity (units)	Price = Average Revenue (Eur)	Total Cost (Eur)
0	34	15.0
1	33	22.9
2	32	25.2
3	31	42.3
4	30	69.6
5	29	112.5
6	28	176.4
7	27	266.7

- Using a graph, find the maximum profit for this firm by using the total revenue (TR), total cost (TC) and total profit (TP) curves. (9 marks)
- Using another graph, check whether the same profit maximising output is obtained using marginal revenue (MR) and marginal cost (MC) curves. (6 marks)
- At what level of output is marginal revenue equal to zero? (3 marks)
- At what level of output is there unit own-price elasticity of demand? (3 marks)
- At the profit maximising output, what can be observed about the slopes of the TR and TC curves? What does this tell us about marginal revenue and marginal cost? (6 marks)
- How would you expect this firm to be affected by a decrease in the market demand for the commodity produced by this industry? (6 marks)

Total: 33 marks

Section B

Question 4

In its concluding statement following its mission to Malta in January 2012, the International Monetary Fund commented that:

“Confidence in Malta’s public finances has been shored up by the European Commission assessment that Malta has taken effective action to correct its excessive deficit. This reflects due recognition of the structural fiscal adjustment in 2011, one of the largest among advanced countries. The deficit is estimated to have narrowed to 3 % of GDP and the primary balance turned into surplus for the first time since 2007. Nonetheless, the composition of adjustment remains suboptimal, relying excessively on one-off and revenue measures.” (IMF Malta Report – 2012 Article IV Consultation)

- a. It is often argued that a fiscal deficit is inevitable. Discuss this statement, making reference to the need for government intervention and the existence of merit goods and public goods. (6 marks)
- b. Why are governments encouraged to reduce fiscal deficits? (8 marks)
- c. Define the fiscal deficit. In your answer also make reference to the deficit criterion as stipulated in the European Union’s Stability and Growth Pact. (4 marks)
- d. Provide an example of a “one-off revenue adjustment”. (3 marks)
- e. Discuss two fiscal policy measures which assist governments in reducing fiscal deficits. (6 marks)
- f. What is the relationship between the fiscal deficit and the public debt? Why are governments also encouraged to reduce high levels of public debt? (6 marks)

Total: 33 marks

Question 5

When discussing the performance of the Maltese economy in the December 2011 issue of the Quarterly Review, the Central Bank of Malta (CBM) observed that:

“...in contrast with the slowdown in the euro area as a whole, annual GDP growth was sustained in the second quarter of 2011. Growth was mainly spurred by net exports as domestic demand continued to contract, albeit at a slower pace than in the preceding quarter. Conditions in the labour market remained broadly favourable in the second quarter, with both Labour Force Survey data and ETC records pointing to further increases in employment. As regards price developments, the annual rate of inflation was higher at the end of the quarter reviewed compared with the previous quarter. The rise primarily reflected developments in the prices of non-energy industrial goods and processed food.”

- a. The Review refers to two growth components. Using a formula to explain income (GDP) determination, list and explain its main components. (6 marks)
- b. The CBM Review mentions that employment is projected to further increase. Does this necessarily mean a reduction in unemployment? If employment continues to rise, can unemployment be ever expected to reach a zero level? (6 marks)
- c. What is the relationship between price developments and GDP? Should GDP be quoted without inflationary effects, or are both measures of GDP with and without inflation relevant for Maltese policy purposes? (7 marks)
- d. What is the relationship between unemployment and inflation? Answer, using graphs in your explanation. (7 marks)
- e. In the current Eurozone crisis, governments are being asked to implement both austerity measures and policies to promote economic growth. Distinguish between austerity measures and economic growth policies. In your answer give two examples of policies aimed at promoting economic growth. (7 marks)

Total: 33 marks

Question 6

The following National Statistics Office table presents the Maltese balance of payments for 2010.

	Eur '000s	Credit	Debit	Net
Current Account		-	243,480	-243,480
Goods		2,333,680	3,296,321	-962,641
Services		3,101,706	1,905,062	1,196,644
Income		1,646,838	2,152,597	-505,759
Current transfers		1,298,812	1,270,532	28,280
Capital and Financial Account		-	28,737	-28,737
Capital account		106,450	-	106,450
Financial account		-	135,187	-135,187
Direct investment		722,404	-	722,404
Other investments		2,395,964	3,253,555	-857,591
Net Errors and Omissions		272,217	-	272,217

Source: National Statistics Office

- “The balance of trade refers only to visible trade”. Discuss whether this statement is correct or not. State why? (6 marks)
- What are the differences between the current and capital accounts of the balance of payments? (6 marks)
- Why is Malta’s services balance always in surplus and the goods balance always in deficit? (5 marks)
- What is behind the large inflows of capital in Malta? What type of policies can encourage inward capital flows? (8 marks)
- Discuss policies which are suitable for reducing a current account deficit on the balance of payments. (8 marks)

Total: 33 marks