



SUBJECT:	Economics
PAPER NUMBER:	I
DATE:	2 nd May 2024
TIME:	4:00 p.m. to 7:05 p.m.

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

SECTION A

Answer TWO questions from this section.

1. a. What is the production possibility frontier? By means of a figure, illustrate the points of efficiency and inefficiency. (5)
- b. What will be the effect, in the short run, on the demand for butter for **each** of the following. Illustrate your answer with a diagram for each.
 - i. a fall in the price of butter; (5)
 - ii. a rise in the price of bread; (5)
 - iii. the imposition of a tax on margarine; and (5)
 - iv. a successful advertising campaign against the consumption of dairy products. (5)

(Total: 25 marks)

2. a. Which elasticity concept would be useful to determine whether two commodities are substitutes? Explain why. (5)
- b. In a free market, what will happen to price in a situation of excess supply and excess demand? (10)
- c. "Price controls are normally mandated by the government in the free market. They are usually implemented as a means of direct economic intervention to manage the affordability of certain goods and services, including rent. Although it may make certain goods and services more affordable, price controls can often lead to disruptions." Discuss this statement and provide an appropriate diagram. (10)

(Total: 25 marks)

3. a. What is the equi-marginal principle? (5)
- b. What is the relevance of the law of diminishing marginal product to costs of production in the short run? (10)
- c. What is the envelope curve of short run average cost curves? Explain by making reference to the relevant diagram. (10)

(Total: 25 marks)

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4. a. What is the most competitive market structure? Outline **FOUR** characteristics related to it. (10)
- b. Compare the long-run equilibrium of the most competitive to the least competitive market structure. How do output, costs, price and consumer welfare compare? (10)
- c. How is price discrimination used under the least competitive market structure? (5)

(Total: 25 marks)

5. a. What is imperfect competition? (10)
- b. What is oligopolistic interdependence? Why is this non-existent under monopolistic competition? (7)
- c. What do you understand by perfect and imperfect collusion? Provide **ONE** example for **each**. (8)

(Total: 25 marks)

6. a. What is economic profit? (5)
- b. Are economics profits eroded under monopolistic competition in the long run? (12)
- c. "Monopolistic market structures engage in non-price competition". Is this statement true or false? Provide an explanation to your answer. (8)

(Total: 25 marks)

SECTION B

Answer TWO questions from this section.

7. a. Define GDP and discuss **THREE** problems of utilizing the GDP measure to assess the overall level of welfare within a specific country. (7)
- b. Explain, by also making use of the appropriate diagram, the various components which together constitute the circular flow of income for an open economy and discuss what an increase in exports of goods and services would have on the level of gross national income. (9)
- c. Discuss and explain the differences of **THREE** main pillars (or determinants) of long run economic growth. For each pillar also specify an example of an applied policy that can be utilized to accelerate the process of economic growth. (9)

(Total: 25 marks)

8. a. Explain, by also making use of the appropriate diagram, the economic relationship that is put forward by the Keynesian consumption function and explain **TWO** factors that could cause this function to shift downwards. (9)
- b. Explain, by referring to the accelerator principle, why aggregate investment is generally one of the most volatile components of aggregate demand expenditure. (7)
- c. Explain, within the context of the income multiplier model, how a decrease in government spending would impact the equilibrium level of national income in the economy. Would such an effect be smaller or larger if the marginal propensity to consume were to decrease? (9)

(Total: 25 marks)

9. a. On the basis of the quantity theory of money, how should the ECB proceed in order to increase Nominal GDP? (7)
- b. What are the main objectives and instruments of monetary policy that can be applied by the central bank? (9)
- c. Explain, with the use of an appropriate diagram, the impact on the equilibrium interest rate in the economy, resulting from the central bank undertaking contractionary open market operations. (9)

(Total: 25 marks)

10. a. Define Structural unemployment and identify causes that result in such a type of unemployment. Identify at least **THREE** measures governments could take to effectively address Structural unemployment. (8)
- b. Explain the difference between cost-push and demand-pull inflation. Between these two causes of inflation, which would potentially be associated with the occurrence of stagflation? (8)
- c. The Philips Curve attempts to explain the relationship between inflation and unemployment. Does such a relationship always hold in both the short and the long run? (9)

(Total: 25 marks)

11. a. Distinguish between public and merit goods and provide **ONE** example for **each** type of good. (8)
- b. Explain the difference between a government budget deficit and national debt. Why is a low level of national debt considered as a positive? (8)
- c. Utilize the aggregate supply and aggregate demand relations, to explain the impact of a supply side shock such as an increase in the price of energy, on the equilibrium level of output and the price level in the economy. (9)

(Total: 25 marks)

12. a. Describe the differences between the law of absolute advantage and the law of comparative advantage. Provide **TWO** examples for **each** type of advantage. (7)
- b. Explain **THREE** methods which can be applied by policy makers in order to restrict trade and provide **THREE** explanations as to why policy makers would want to implement such policies. (9)
- c. Describe the main components of the balance of payments and explain what would be the likely impact on the current account of the Maltese economy, in the state of an appreciation of the British Pound against the Euro. (9)

(Total: 25 marks)



SUBJECT: **Economics**
 PAPER NUMBER: II
 DATE: 3rd May 2024
 TIME: 9:00 a.m. to 12:05 p.m.

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

1. Table 1 represents the market demand and supply schedules for a particular product over a range of prices.

Table 1

Price (€) per kg	Quantity Demanded (kgs)
22	4
20	8
18	12
16	16
14	20
12	24
10	28
8	32

- a. Plot the quantity demanded on the x-axis and price on the y-axis. What would happen if you swapped the axes? Would the demand curve remain downward-sloping? Why or why not?(7)
- b. Calculate and interpret the price elasticity of demand for all price levels and interpret any changes in elasticity values, if any. (7)
- c. Would it benefit the supplier to decrease the price from €12 to €10 per kg? Discuss. (6)
- d. Let's assume that the product in question is potatoes. Identify **THREE** factors other than price that are likely to influence the demand for potatoes. Explain how **each** of these factors impact demand. (6)
- e. Discuss the impact on demand following the imposition of a customs duty (tax on importation) in a country which is a net importer of potatoes. Discuss, using diagrams where appropriate. (7)

(Total: 33 marks)

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2. Table 2 represents a firm's cost and revenue situation.

Table 2

Output (units per week)	Price per unit (€)	Total Cost (€)
10	65.5	27.4
20	59.5	43.4
30	53.5	56.4
40	47.5	74.8
50	41.5	107.9
60	35.5	162.8
70	29.5	245.0
80	23.5	356.0

- a. Calculate the marginal cost (MC) for all levels of output. (5)
- b. Calculate the marginal revenue (MR) for all levels of output. (5)
- c. Plot the marginal cost (MC) and marginal revenue (MR) curves on the same graph. (4)
- d. At what level of output would profits be maximized? Why? (4)
- e. Calculate the average cost (AC) at all output levels. Why is the average cost decreasing at low levels of output and increasing at higher levels of output? (7)
- f. Is there a relationship between the average, marginal, and total cost curves? If yes, explain how these **THREE** curves are related to **each** other. (8)

(Total: 33 marks)

3. A newly set-up firm is considering the number of workers it needs to employ to produce a particular product. It faces the following costs and output figures shown in Table 3:

Table 3

Number of Workers	Labour Costs in Euro per hour per employee	Total Output per hour
10	20	108
12	22	124
14	24	136
16	26	144
18	28	150
20	30	156
22	32	160
24	34	162

Assume that each product sells at €16.00 per unit and that each employee works 8 hours per day.

- Construct a table to show the Total Cost of Labour per day (TCL), Marginal Cost of Labour (MCL), the Total Revenue Product per day (TRPL), and the Marginal Revenue Product (MRPL). (8)
- How many workers will the firm employ in order to maximise profits? What will its hourly wage bill and hourly revenue be at this level of employment? What is the profit per unit at the level of output? Explain your answer. (10)
- Suppose that the firm is considering offering the possibility for each worker to work 2 hours per day over and above the 8 hours daily. However, each worker cannot work more than 45 hours per week. The rate per hour for overtime is 1.82 times the normal rate. Assume that total output per hour remains unchanged, but employees can work more in a relaxed and peaceful environment.

Would this change the answer provided in b. on the number of workers the firm employs to maximise profits? Show your workings. (7)
- If the firm decides to increase the selling price to €17.46 per unit, would this change the answer provided in c.? Why or why not? Discuss your answer using calculations. (8)

(Total: 33 marks)

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SECTION B

4. In a press release issued by the National Statistics Office (NSO) on registered employed for July 2023, it was reported that registered full-time employment totaled 273,121 in July 2023, an increase of 7.5 per cent over July 2022. Part-time as a primary job amounted to 36,666, an increase of 3.0 per cent compared to the same period in 2022.

It was also reported that private sector full-time employment went up by 9.4 per cent over one year, reaching 221,706. Public sector full-time employment increased by 0.2 per cent since July 2022, totaling 51,415.

Compared to July 2022, full-time employment for males went up by 7.7 per cent, amounting to 165,490, while that for females increased by 7.3 per cent, reaching 107,631.

Reference: National Statistics Office (December 2023), Registered Employment: July 2023.

- a. What could have led to increases in registered employment? Does this imply that registered unemployment decreased as well? (6)
- b. If private sector full-time employment went up by 9.4 per cent to 221,706 in July 2023 and public sector full-time employment increased by 0.2 per cent since July 2022, totaling 51,415, what were the levels of private and public sector full-time employment in July 2022? (6)
- c. What possible reasons could explain the lower full-time employment level for females relative to males? (6)
- d. Is there a relationship between the labour market and economic growth? Discuss in detail. (7)
- e. Is there a relationship between changes in the labour market and inflationary developments? Discuss in detail. (8)

(Total: 33 marks)

5. In its assessment of the Draft Budgetary Plan 2024, the Malta Fiscal Advisory Council notes that given the current circumstances in the global economy, the macroeconomic outlook remains subject to considerable uncertainty and is very sensitive to the assumptions employed. The Council notes that the Ministry is projecting GDP to grow by 4.1% in 2023 and then by 4.2% in 2024. At the same time, the fiscal deficit ratio is projected to decline to 5.0% in 2023 before reducing by another 0.5 percentage points in 2024.

The Council's assessment points to the possibility of achieving better fiscal deficit ratios than projected in the Draft Budgetary Plan. Indeed, the Council views positive risks for the government's revenue projections, supported mainly by the possibility of larger revenue from direct taxes. Combined with upside risks to GDP and the possibility of expenditure savings in 2023, these risks would translate into a larger improvement in the fiscal deficit in the current year than is projected by the Ministry. However, when removing the base effect of 2023, a downside risk is viewed for the fiscal outturn in 2024, which implies the possibility of a lower adjustment in the deficit than envisaged. Should the positive risk in 2023 materialise, a minimum structural effort of 0.5 pp in 2024 would still need to be registered, given that the fiscal deficit is projected to remain above the 3% of GDP benchmark.

Amongst the recommendations, the Council highlighted the need for economic growth to be more export-led rather than dependent on domestic demand, especially private consumption. This is particularly important in the context of the present high inflationary environment. Furthermore, the Council also emphasized that the Government should prepare an adequate exit strategy in relation to the fixed energy price policy, adopt a more targeted approach and enhance incentives for energy savings.

Reference: Malta Fiscal Advisory Council (2023), Assessment of the Draft Budgetary Plan 2024. Published on 18 December 2023.

- a. In 2023, real GDP is projected to grow by 4.1% and then by 4.2% in 2024. If in 2022, Malta's real GDP stood at €14.741 million, what is the projected absolute amount of Malta's GDP in 2023 and in 2024? (6)
- b. The Council's assessment points to the possibility of achieving better fiscal deficit ratios than projected in the Draft Budgetary Plan. How could this be achieved? (6)
- c. According to the forecasts produced by the Ministry for Finance and Employment, the fiscal deficit ratio is projected to narrow down to 5.0% in 2023 and 4.5% in 2024. Are there any fiscal rules that Malta must adhere to? According to these forecasts, is Malta in line with these rules? What would happen if Malta breached these rules? (9)
- d. Do you think that the recent hikes in inflation will affect public finances? If yes, why?(6)
- e. In its assessment, the Council emphasised that the Government should prepare an adequate exit strategy in relation to the fixed energy price policy, adopt a more targeted approach and enhance incentives for energy savings. Do you agree with this? Why or why not? (6)

(Total: 33 marks)

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6. According to News Release 009/2024 published on 17 January 2024, the National Statistics Office (NSO) reported that in December 2023, the annual rate of inflation as measured by the Harmonised Index of Consumer Prices (HICP) was 3.7 per cent, down from 3.9 per cent in November 2023.

The largest upward impact on annual inflation was measured in the Food and non-alcoholic beverages index (+1.69 percentage points), while the largest downward impact was recorded in the Communications Index (-0.38 percentage points).

The twelve-month moving average rate for December stood at 5.6 per cent.

Reference: National Statistics Office (January 2024). Harmonised Index of Consumer Prices (HICP): December 2023.

- a. The National Statistics Office produces two measures of inflation. Name the **TWO** measures of inflation and highlight the differences between the two indices. (6)
- b. The annual inflation rate as measured by the HICP in December 2023 was 3.7 per cent, while the twelve-month moving average rate for the same month stood at 5.6 per cent. What explanation could there be for this? (6)
- c. In your opinion, do you think that Malta's inflation rate is high? Could this be the result of a booming economy? Discuss. (8)
- d. Mention **TWO** policies that policymakers could implement to ease price pressures. Discuss the advantages and disadvantages associated with **each**. (8)
- e. The cost-of-living adjustment for 2024 amounts to €12.81 per week. Explain the methodology behind calculating the cost-of-living adjustment. (5)

(Total: 33 marks)