

SUBJECT: **Economics**  
 DATE: 30<sup>th</sup> August 2019  
 TIME: 4:00 p.m. to 7:05 p.m.

The question in Section A is **compulsory**. In addition, answer **TWO** questions from Section B and **TWO** questions from Section C.

Section A carries a total of 20 marks, while Section B and Section C each carry a total of 40 marks.

### SECTION A

**This question is compulsory and carries 20 marks.**

1. Study the data below and answer the questions that follow:

Table 1: Harmonised Indices of Consumer Prices (HICP)

| Division                          | Weight          | Indices       |               | Annual rate (%) |
|-----------------------------------|-----------------|---------------|---------------|-----------------|
|                                   |                 | Mar 2018      | Mar 2019      |                 |
| Food and Non-alcoholic Beverages  | <b>161.45</b>   | 105.76        | 109.46        | 3.5             |
| Alcoholic Beverages and Tobacco   | <b>37.22</b>    | 107.78        | 108.39        | 0.6             |
| Clothing and Footwear             | <b>49.22</b>    | 93.65         | 93.32         | -0.4            |
| Housing, Water and Electricity    | <b>85.14</b>    | 102.39        | 104.99        | 2.5             |
| Furnishings and Housing Equipment | <b>76.73</b>    | 109.75        | 109.30        | -0.4            |
| Health                            | <b>40.56</b>    | 105.00        | 105.82        | 0.8             |
| Transport                         | <b>135.62</b>   | 99.09         | 100.58        | 1.5             |
| Communication                     | <b>33.96</b>    | 96.34         | 96.55         | 0.2             |
| Recreation and Culture            | <b>102.96</b>   | 98.03         | 98.13         | 0.1             |
| Education                         | <b>23.36</b>    | 109.51        | 104.65        | -4.4            |
| Restaurants and Hotels            | <b>177.53</b>   | 94.71         | 96.12         | 1.5             |
| Miscellaneous Goods and Services  | <b>76.25</b>    | 102.66        | 104.80        | 2.1             |
| <b>All Items</b>                  | <b>1,000.00</b> | <b>101.11</b> | <b>102.47</b> | <b>1.3</b>      |

Source: NSO, NR5812019

- Define 'inflation rate'. (2)
- With reference to Table 1 what does the 'Harmonised Indices of Consumer Prices' measure? What are the items registering the highest and lowest rate of inflation? (5)
- Explain what is meant by the term 'Harmonised' in the HICP. (2)
- One of the main functions of the Central Bank is the maintenance of price stability. Explain how the Central Bank can use interest rate to control inflation. (5)
- Mention **THREE** costs of Inflation. (6)

**(Total: 20 marks)**

**SECTION B**

**Answer any TWO questions in detail. Each question carries 20 marks.**

2. Café Joe is a cafeteria based in Valletta. It produces fresh roasted coffee and cakes. The demand and supply for cakes is shown in Table 2.

Table 2: Demand and Supply Schedule

| Price in Euros | Demand per day | Supply per day |
|----------------|----------------|----------------|
| 0.50           | 500            | 100            |
| 1.00           | 400            | 200            |
| 1.50           | 300            | 300            |
| 2.00           | 200            | 400            |

- a. Sketch the demand and supply curves. What is the equilibrium price and equilibrium quantity? (3)
- b. Briefly explain **FOUR** factors which affect demand for cakes. (4)
- c. Suppose that government wants to impose a fixed fat tax (a tax on foods or drinks deemed to be unhealthy) on the producers of cakes. Using a supply and demand diagram, explain the impact on equilibrium price and equilibrium quantity. In your answer explain in detail the transition to the new equilibrium. (10)
- d. When the fat tax on cakes was introduced, Café Joe noted that the sale of coffee increased. Does this indicate that cakes and coffee are complements to, or substitutes to, coffee? Explain your reasoning. (3)

**(Total: 20 marks)**

3. Table 3 shows costs for a bakery.

Table 3: Production and Costs with a single variable factor

| Variable Factor (Labour) | Total Product | Marginal Product | Average Product | Total Fixed Costs | Total Variable Costs | Total Cost |
|--------------------------|---------------|------------------|-----------------|-------------------|----------------------|------------|
| 0                        | 0             | /                | 0.0             | 5.0               | (i)                  | 5.0        |
| 1                        | 10            | (ii)             | (iii)           | (iv)              | 5.0                  | (v)        |
| 2                        | 40            | (vi)             | (vii)           | 5.0               | 10.0                 | 15.0       |
| 3                        | 66            | 26.0             | 22.0            | 5.0               | 15.0                 | 20.0       |
| 4                        | 72            | 6.0              | 18.0            | 5.0               | 20.0                 | 25.0       |
| 5                        | 76            | 4.0              | 15.2            | 5.0               | 25.0                 | 30.0       |
| 6                        | 70            | -6.0             | 11.7            | 5.0               | 30.0                 | 35.0       |

- a. Fill in the missing values in Table 3. Show all your workings. (7)
- b. Give **ONE** possible example of a fixed cost for a bakery. Explain your answer. (2)
- c. With reference to Table 3, explain the law of variable proportions. (6)
- d. Are economies of scale important to firms? Explain using examples. (5)

**(Total: 20 marks)**

- 4. a. Describe the main characteristics of perfect competition. (6)
- b. Discuss the main advantages and disadvantages of a monopoly. (8)
- c. Describe the main characteristics of an oligopoly. (6)

**(Total: 20 marks)**

5. Table 4 shows the marginal utility Mary gets from consuming different quantities of chocolate bars. Assume that the chocolate bar sells for €1.00.

Table 4: Marginal Utility for Mary from consuming chocolate bars

|                   |   |     |     |     |     |
|-------------------|---|-----|-----|-----|-----|
| Quantity Consumed | 0 | 1   | 2   | 3   | 4   |
| Marginal Utility  |   | 2.0 | 1.5 | 1.0 | 0.5 |

- Define 'total utility', 'marginal utility' and 'consumer surplus'. (6)
- Explain why as quantity consumed increases, marginal utility decreases. In your answer make reference to the law of diminishing marginal utility. (4)
- What is Mary's total utility from consuming two chocolate bars? Show your working. (2)
- What is Mary's marginal consumer surplus from consuming the second chocolate bar? Show your working. (2)
- What is Mary's total consumer surplus from consuming two chocolate bars? Show your working. (2)
- At what level of consumption is Mary's total consumer surplus maximised? Derive also the total and marginal consumer surplus at this level. Show your working. (4)

**(Total: 20 marks)****SECTION C****Answer any TWO questions in detail. Each question carries 20 marks.**

- Explain the **THREE** methods used to estimate the Gross Domestic Product (GDP). (8)
  - Considering a closed economy, using the two-sector circular flow of income model, explain why the **THREE** methods used to measure GDP should be equal. (8)
  - Considering an open economy, distinguish between leakages and injections, and explain the equilibrium in the circular flow of income. (4)

**(Total: 20 marks)**

- Explain the factors which determine the size of the national income multiplier. (6)
  - In a closed economy with no government, a €1 billion increase in investment leads to a €5 billion increase in consumption. What is the value of the Marginal Propensity to Consume (MPC)? (6)
  - Explain and show graphically how the multiplier affects aggregate demand. (8)

**(Total: 20 marks)**

- Define economic growth and explain **THREE** factors that lead to economic growth. (8)
  - Using a diagram illustrating the business cycle, explain the output gap. (4)
  - Explain how the use of fiscal policy can generate economic growth. (8)

**(Total: 20 marks)**

- Define unemployment and explain **TWO** types of unemployment. (8)
  - Identify **THREE** costs of unemployment (3)
  - Explain what is meant by supply side policies and provide **THREE** examples of supply side policies which affect the labour market. (9)

**(Total: 20 marks)**