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SUBJECT:	<b>Economics</b>
DATE:	17 <sup>th</sup> June 2021
TIME:	9:00 a.m. to 12:05 p.m.

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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. Consider the following table based on figures published by the National Statistics Office relating to the Maltese National Accounts, for the year 2019. All values are in €millions.

Table 1: GDP identity

Agriculture, forestry, and fishing	96
Mining and quarrying; electricity, gas, steam, and air conditioning supply; water supply; sewerage, waste management and remediation activities	215
Manufacturing	989
Construction	512
Wholesale and retail trade; repair of motor vehicles and motorcycles; transportation and storage; accommodation and food service activities	2,438
Information and communication	826
Financial and insurance activities	953
Real estate activities	756
Professional, scientific, and technical activities; administrative and support service activities	2,139
Public administration and defence; compulsory social security; education; human health and social work activities	2,015
Arts, entertainment and recreation, repair of household goods and other services	1,027
Taxes less subsidies on products	1,496
Employee's compensations share of gross value added	5,785
Consumer final expenditure at market prices	6,023
Government final current expenditure	2,515
Gross public and private capital formation	3,014
Exports of goods and services	19,290
Imports of goods and services	17,380
Nominal rate of growth of GDP at market prices (%) between 2018 and 2019	7.6%
Real rate of growth of GDP at market prices (%) between 2018 and 2019	5.3%

(Source: Gross Domestic Product: Q3/2020 - NR194/2020, NSO)

- a. Define the term Gross Domestic Product (GDP)? List the **THREE** approaches often used to measure GDP? (5)
- b. Using the table provided calculate the value of gross value added in 2019? (3)
- c. What was the value of GDP at market prices for 2019? Explain **TWO** ways of measuring GDP at market prices using the data shown in the table. (6)
- d. Very briefly explain why Malta is highly dependent on imports and exports? (2)
- e. What is the difference between GDP growth in nominal terms and growth in real terms? (4)

**(Total 20 marks)**

**SECTION B**

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

- 2. During March 2020 hand sanitizer was in short supply in Europe, with prices jumping sharply on the back of a surge in demand because of the coronavirus pandemic.
  - a. Suppose that the price elasticity of demand is -0.1 and it is estimated that the price of hand sanitizer will increase by 50% during the pandemic. Explain the likely impact of this increase in the price of hand sanitizer on the quantity demanded. (4)
  - b. Explain why the price of hand sanitizer is expected to increase. Illustrate your answer with a demand and supply diagram. (8)
  - c. Explain why the price elasticity of demand for hand sanitizer is relatively inelastic. (4)
  - d. Evaluate the impact on demand and price elasticity of demand of sanitizer after a vaccine is made available. (4)

**(Total: 20 marks)**

- 3. The table below shows an economy’s production possibility curve.

Table 2: Product Possibility Curve

Points	Capital Goods	Consumer Goods
A	100	0
B	60	20
C	30	40
D	10	60
E	0	80

- a. Illustrate the production possibility curve, clearly showing all points. (4)
- b. Which movement has an opportunity cost of 1 unit of capital goods? Explain why. (6)
- c. On a different diagram, sketch a production possibility curve showing economic growth. Briefly explain the diagram. (4)
- d. Assume that the country is at point D producing 10 units of capital goods and 60 units of consumer goods. By referring to the question 3c, what would be the consequences if, next year, 60 units of capital goods and 20 units of consumer goods (point B) were produced? (6)

**(Total: 20 marks)**

4. a. Construct a demand curve and a supply curve for home fitness equipment based on the data provided in the following table. What is the equilibrium price? What is the equilibrium quantity at that price? (4)

Table 3: Demand and Supply Schedule

Price per unit	Demand	Supply
750	300	1500
500	600	1200
350	900	900
250	1200	600
150	1500	300
100	1800	0

- b. Give factors, other than price, that affect demand for home fitness equipment. For a change in each factor, state how it would shift the demand curve. (8)
- c. Suppose that the demand for home fitness equipment remains constant but that business disruption occurs from the global spread of COVID-19 and that could potentially halt one-half of the equipment production. What will happen to the equilibrium price and quantity for home fitness equipment? (8)

**(Total: 20 marks)**

5. a. Julie owns a hairdressing salon in Valletta. Below is a list of some of Julie’s costs. Classify these costs into fixed and variable costs. Briefly explain why. (4)
- i. Loan repayment
  - ii. Shampoo
  - iii. Costs of hiring barbers
  - iv. Credit card fees
- b. Julie notices that the more barbers she employs in the short-run, the lower is the productivity. How would you explain this observation? (4)
- c. “The hairdressing industry is an example of a monopolistically competitive industry.” Explain why. (4)
- d. By using examples from the hairdressing industry distinguish between internal and external economies of scale. (8)

**(Total: 20 marks)**

***Please turn the page.***

**SECTION C**

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

6. a. Using the appropriate diagram, explain how fiscal policy is used to stimulate economic growth. (6)
- b. Explain the difference between Short-Run Aggregate Supply (SRAS) and Long-Run Aggregate Supply (LRAS). (8)
- c. Explain how in the long run a shift in aggregate demand leads to a persistent increase in prices, when aggregate supply is vertical. (6)
- (Total: 20 marks)**

7. a. Considering the following general form of the consumption function explain the relationship between consumption and income. (8)
- $$C = a + bY$$
- b. Mention **THREE** determinants of consumption and explain their impact on consumption. (6)
- c. How is Investment different from Consumption? What do you understand by the term Marginal Efficiency of Capital (MEC)? (6)
- (Total: 20 marks)**

8. a. Explain **FOUR** different types of unemployment. (8)
- b. How is the unemployment rate calculated? What is the 'Labour Force' composed of? (4)
- c. Mention **FOUR** reasons why unemployment is considered a social and economic problem. (8)
- (Total: 20 marks)**

9. a. What is the Balance of Payments (BOP)? (4)
- b. Which account would the following transactions be entered in? (10)
- i. The sale of locally produced agricultural products to Germany.
  - ii. A tourist from Malta spends €800 in Canada.
  - iii. A multinational company operating in Malta makes €20,000 profit and sends it to Sweden.
  - iv. The purchase of shares in a Maltese company, by a French company, worth €10 million.
  - v. A large corporation located in France pays interest of €55,000 on a loan from a Maltese bank.
- c. Define the following terms: (6)
- i. Foreign Direct investment;
  - ii. Errors and omissions;
  - iii. Favourable Trade Balance.
- (Total: 20 marks)**