



SUBJECT:	Economics
DATE:	16 th May 2023
TIME:	9:00 a.m. to 12:05 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. The paper is marked out of 100 marks.

SECTION A

This question is compulsory and carries 20 marks.

1. The war in Ukraine risks upending Europe's economic recovery. The Russian invasion caused a massive humanitarian crisis – almost seven million Ukrainians have fled the country. The conflict and resulting sanctions have disrupted exports from the region for commodities like metals, food, oil and gas, pushing up inflation to levels not seen in decades.

Real economic growth in the European Union is now expected to fall well below 3% in 2022, down from the 4% estimated by the European Commission before the war. Further trade disruptions or increased economic sanctions could plunge the European economy into recession.

The slowdown in growth is particularly pronounced in countries in close proximity to Ukraine, like Poland and Hungary – countries that are also hosting large numbers of Ukrainian refugees. Italy and Germany, which are heavily dependent on Russian oil and gas, are feeling the pressure as well.

[Source: The European Investment Bank Economics Department 2022]

- a. With reference to the above text, list and explain **THREE** economic impacts of the war. (6)
- b. Define economic growth and distinguish between real and nominal economic growth. (6)
- c. In 2022, countries experienced a 'slowdown in growth'. With reference to the business cycle, explain the **FOUR** phases an economy experiences over the long run. (4)
- d. Mention and briefly explain **TWO** consequences of an economic slowdown, and explain **TWO** actions that could be undertaken for economic recovery. (4)

(Total 20 marks)

Please turn the page.

Section B

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

2. Table 1 shows market data for gasoline. The original equilibrium price is \$1.40.

Table 1

Price (per gallon)	Quantity demanded (millions of gallons) per month	Quantity supplied (millions of gallons) per month	New quantity demanded (millions of gallons) per month	New quantity Supplied (millions of gallons) per month
\$1.00	800	500		
\$1.20	700	550		
\$1.40	600	600		
\$1.60	550	640		
\$1.80	500	680		
\$2.00	460	700		
\$2.20	420	720		

- Define the law of demand and the law of supply. (4)
- Explain the market condition when the price is fixed at \$1.00 and the market clearance mechanism using the numbers supplied in Table 1 above. Your answer should include a diagram. (6)
- Assume that the demand rose by 200 gallons per month at all prices as a result of a cold winter. At the same time, production costs rose, resulting in a monthly supply reduction of 100 gallons at all prices. Determine the new equilibrium price and quantity as a result of the elevated demand and production costs. Refer and copy the last two columns of Table 1 for your working, on the booklet provided. (4)
- According to research, the price elasticity of demand for gasoline is -0.34. Explain what this means. (3)
- Give **ONE** reason why the price elasticity of demand is relevant to the size of any gasoline change. (3)

(Total: 20 marks)

- Basil and Sybil own and run a small hotel in a seaside resort in England. They employ one full-time member of staff and at busy periods they employ two part-time members of staff.
 - Indicate whether the following costs are fixed costs or variable costs, and explain why.
 - Toiletries in the room (soap, shampoo etc.); (2)
 - Wages of the full-time member of staff; (2)
 - Laundry (clean towels and bedding); and (2)
 - Bank loan repayments. (2)

- b. Suppose that the owners decide to sell their hotel to a renowned chain-branded hotel so that their small hotel benefits from economies of scale.
- i. Identify and explain **TWO** economies of scale relevant to the above case; (4)
 - ii. Identify and explain **TWO** diseconomies of scale relevant to the above case. (4)
- c. Taking into account your response to 3(b)(i), explain how economies of scale can lead to cost advantages for this hotel. Explain your answer. (4)

(Total: 20 marks)

4. Railtrack is the sole operator and owner of the rail infrastructure in a small country. The very high costs of laying tracks and building a network, as well as the costs of buying or leasing the trains, would prohibit, or deter, the entry of a competitor.
- a. What does the information provided above suggest about the market structure of the railway industry in the country? Explain your answer. (6)
 - b. Many railway companies are considering entering the market. Explain **THREE** advantages to the consumers for increased competition. (6)
 - c. Describe why it is difficult for the railway industry to accommodate many firms in the market. (4)
 - d. Give and explain **ONE** reason why perfect competition in the railway industry may **not** be in the consumer's best interest. (4)

(Total: 20 marks)

5. Free market economic systems may fail in a number of ways.
- a. Consumers may be unable or unwilling to buy merit goods in quantities. What are merit goods? Give **ONE** example. (5)
 - b. Public goods are mostly provided by governments and **not** by individuals. What are public goods? Give **ONE** example. (5)
 - c. Free market decisions may involve externalities. What are externalities? Give **ONE** example. (5)
 - d. Individuals may buy and consume demerit goods. What are demerit goods? Give **ONE** example. (5)

(Total: 20 marks)

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SECTION C

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

6. a. Define and explain the multiplier. How is it calculated? Why is the multiplier such an important principle in economics? (6)
- b. How does the Marginal Propensity to Consume (MPC) relate to the multiplier process? (6)
- c. In a closed economy with **no** government, a €1 billion increase in investment leads to a €5 billion increase in output. What is the value of the marginal propensity to consume? (8)

(Total: 20 marks)

7. a. Explain the following concepts: (10)
- i. Seasonal Unemployment;
 - ii. Frictional Unemployment;
 - iii. Natural Rate of Unemployment;
 - iv. Labour Force; and
 - v. Unemployment rate.
- b. Why is the unemployment rate often considered **not** to be accurate? (4)
- c. Mention **THREE** social and economic problems associated with unemployment. (6)

(Total: 20 marks)

8. a. Define inflation and explain why economists are concerned about inflation. (4)
- b. By using **TWO** separate and appropriate diagrams, discuss **TWO** causes of inflation. (6)
- c. How can monetary policy be used to control inflation? Explain using diagrams. (10)

(Total: 20 marks)

9. a. Define Balance of Payments and distinguish between the current account and the financial account. (6)
- b. Distinguish between a trade deficit and a trade surplus. (4)
- c. Identify whether the following transactions affect the goods account, the services account, the primary income account, or the secondary income account:
- i. The sale of locally produced agricultural products to Italy; (2)
 - ii. A tourist from Malta spends €800 in Hungary; (2)
 - iii. A multinational company operating in Malta makes €20,000 profit and sends it to Germany; (2)
 - iv. Compensation of employees; and (2)
 - v. Grants from the EU. (2)

(Total: 20 marks)