



SUBJECT:	Economics
DATE:	4 th September 2023
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. The paper is marked out of 100 marks.

SECTION A

This question is compulsory and carries 20 marks.

1. Global inflation will fall in 2023 and 2024 amid subpar economic growth.

Global growth is projected to fall from an estimated 3.4 percent in 2022 to 2.9 percent in 2023, then rise to 3.1 percent in 2024. The forecast for 2023 is 0.2 percentage point higher than predicted in the October 2022 World Economic Outlook (WEO) but below the historical (2000–19) average of 3.8 percent. The rise in central bank rates to fight inflation and Russia's war in Ukraine continue to weigh on economic activity. The rapid spread of COVID-19 in China dampened growth in 2022, but the recent reopening has paved the way for a faster-than-expected recovery. Global inflation is expected to fall from 8.8 percent in 2022 to 6.6 percent in 2023 and 4.3 percent in 2024, still above the pre-pandemic (2017–19) levels of about 3.5 percent.

[...]

In most economies, amid the cost-of-living crisis, the priority remains achieving sustained disinflation. With tighter monetary conditions and lower growth potentially affecting financial and debt stability, it is necessary to deploy macroprudential tools and strengthen debt restructuring frameworks. Accelerating COVID-19 vaccinations in China would safeguard the recovery, with positive cross-border spillovers. Fiscal support should be better targeted at those most affected by elevated food and energy prices, and broad-based fiscal relief measures should be withdrawn. Stronger multilateral cooperation is essential to preserve the gains from the rules-based multilateral system and to mitigate climate change by limiting emissions and raising green investment.

[Source: World Economic Outlook, IMF, January 2023]

- a. With reference to the above text, explain the **TWO** main economic consequences of the Ukrainian War. (6)
- b. Distinguish between inflation and deflation. (4)
- c. Explain why economists are concerned about inflation. (4)
- d. Mention and explain **TWO** policies that can be used to control inflation. (6)

(Total 20 marks)

Please turn the page.

SECTION B

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

2. Table 1 shows the quantity of computer games demanded and supplied.

Table 1

Price (per gallon)	Quantity demanded per month	Quantity supplied per month	New quantity supplied per month
€10	200	120	
€15	160	160	
€20	120	200	
€25	80	240	

- a. Define the law of demand and the law of supply. (4)
- b. Using the information provided in Table 1, identify and explain what the equilibrium price and equilibrium quantity are. In your answer, explain the market clearing mechanism using the numbers provided above. (6)
- c. Suppose that as a result of an increase in packaging costs for the games, supply decreased by 80 at all prices. Calculate the new quantity supplied given the increase in packaging costs. Refer and copy the last column of Table 1 to show your workings. (4)
- d. Using your workings derived in part (c) what is the new equilibrium price and equilibrium quantity. In your answer, explain the market mechanism involved in market clearing. (6)

(Total: 20 marks)

3. Loyal football fans have been forced to pay more for their 2023-2024 season tickets, with some football fans hit with 20% price rises. The rises will cause many fans, especially those supporting families, to seriously consider whether they can afford to attend games. Football clubs have found that the price elasticity of demand for their tickets is 0.5.

- a. Define the price elasticity of demand. (4)
- b. Using the information provided above, explain whether the demand for their tickets is relatively price elastic or inelastic. (4)
- c. Given the price elasticity of demand for football clubs' tickets, explain the likely impact on club revenue with an increase in ticket prices. (6)
- d. Despite price hikes in recent years, football clubs are finding that attendance at matches is booming. Give **TWO** possible reasons why, despite the price increases, attendance to games is also increasing. (6)

(Total: 20 marks)

4. Consider the food import market on a small island. The market is currently dominated by one large company.
- What does the information provided indicate about the market structure of food import in the country? Explain the characteristics of this market structure. (6)
 - Explain **ONE** barrier to entry that is likely to exist in the food import market. (4)
 - The government of the small island is considering subsidising a new company to enter the food import market. Explain the impact of a new entrant on the market structure and discuss **TWO** potential advantages for consumers in this market structure. (6)
 - Explain **ONE** reason why having one large company in the food import market may be in the consumer's best interest. (4)

(Total: 20 marks)

5. Table 2 below shows the distribution of revenue received from the sale of a carton of milk priced at €1 in 2023.

Table 2

Milk	20%
Packaging	10%
Rent/rates	10%
Admin/overheads	12%
Labour	10%
VAT	18%
Profit	20%

- Explain the difference between fixed costs and variable costs. (6)
- Identify the fixed costs and variable costs associated with **each** cost listed in Table 2 above. (4)
- Using the information provided in Table 2, determine the profit (in euros) for a carton of milk. Include your calculations. (2)
- Suppose that the milk company hires you as a consultant. The company's directors want to produce more, arguing that they should hire more workers to produce more milk. Explain the law of variable proportions to describe the relationship between the amounts of labour and the resulting output in the production process. Are the directors correct in their reasoning? (8)

(Total: 20 marks)

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SECTION C

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

6. a. Define Gross Domestic Product (GDP). Identify **THREE** main difficulties in measuring GDP. (7)
- b. Define the Circular Flow of Income and distinguish between leakages and injections. (5)
- c. Are the following injections, withdrawals or neither? Give a reason for your answer.
- i. Firms spend money on research; (2)
 - ii. Government expenditure on measures for economic recovery from COVID; (2)
 - iii. People draw on savings to spend on holidays abroad; and (2)
 - iv. Government increase income tax. (2)

(Total: 20 marks)

7. a. Explain the relationship between consumption and income by referring to the consumption function shown below. (8)

$$C = a + bY$$

- b. Derive the savings function and explain. (6)
- c. How does the Marginal Propensity to Consume (MPC) relate to the multiplier process? (6)

(Total: 20 marks)

8. a. Distinguish between real and nominal economic growth. (4)
- b. Identify and explain the **FOUR** phases in the long run economic cycle. (8)
- c. Identify **TWO** factors which could cause a slowdown in the economy. Also identify **TWO** economic policy measures to address this slowdown. (8)

(Total: 20 marks)

9. Below you are provided with the schedule for the Aggregate Demand (AD) and Aggregate Supply (AS).

Price Level	Aggregate Demand	Aggregate Supply
15	1,000	5,000
12	2,000	4,000
9	3,000	3,000
6	5,000	2,000
3	7,000	1,000

- a. Define Aggregate Demand and Aggregate Supply. Using Table 3 above identify the macroeconomic equilibrium price level in the economy. (6)
- b. What is the difference between the short run and long run aggregate supply? Explain using diagrams. (6)
- c. Using diagrams, explain the impact of fiscal policy on Aggregate Demand and explain how it leads to economic growth. (8)

(Total: 20 marks)