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SUBJECT: **Economics**  
DATE: 2<sup>nd</sup> May 2024  
TIME: 4:00 p.m. to 7:05 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. The paper is marked out of 100 marks.

**SECTION A** (20 marks)

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

1. Minimum wage to rise to €213.54 a week from January.

In 2024, the National Minimum Wage rose to €213.54 per week from €192.73. The hourly rate is set to increase from €4.82 to €5.34 in 2024. The increase for 2024 consists of an €8 raise and a €12.81 cost-of-living adjustment (COLA), calculated annually. This adjustment in the minimum wage comes as a result of an agreement reached between the social partners.

*(Source adapted from: <https://timesofmalta.com/articles/view/minimum-wage-rise-21354-week-january.1063575>)*

- a. Explain the concept of the minimum wage. (4)
- b. Illustrate the impact of an increase in the minimum wage on the labour market using the supply and demand framework. (6)
- c. Explain the concept of price elasticity of demand. (4)
- d. How might an increase in the minimum wage impact the demand for goods and services in Malta? Use the concept of elasticity to support your analysis. (6)

**(Total 20 marks)**

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**SECTION B**

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

2. A country is able to produce agricultural and non-agricultural goods with a given amount of resources. Its production possibility curve (PPC) is shown in Figure 1.

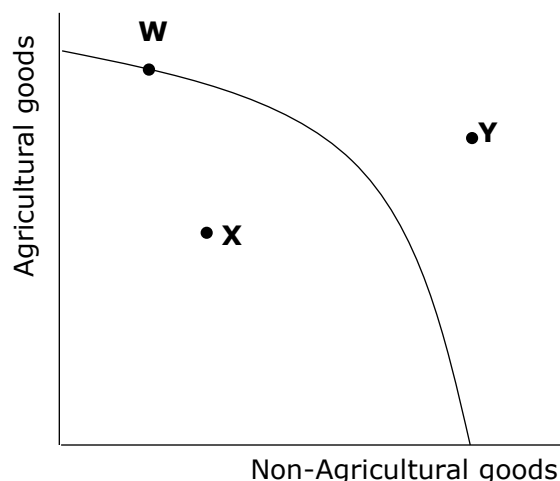


Figure 1: Production Possibility Curve (PPC)

- a. Explain what the PPC shows. (2)
- b. Explain how the slope of the PPC reflects opportunity cost. (4)
- c. Consider the PPC in Figure 1. Which of the points marked w, x and y indicate unemployed resources in the economy? Justify your choice based on the principles of the PPC and resource allocation. (6)
- d. Discuss the factors that can cause the PPC to shift outward or inward. (8)

**(Total: 20 marks)**

3. A firm increases supply by 2% following a price increase of 4%.

- a. Define price elasticity of supply (PES). (2)
- b. Discuss how the numerical value of PES relates to the responsiveness of quantity supplied to changes in price. (6)
- c. Calculate the PES for the firm. Show your working. (4)
- d. What does the PES found in part c. indicate about the firm's supply response to price changes? Explain the importance of understanding PES for the firm's decision-making processes. (8)

**(Total: 20 marks)**

4. During the FIFA World Cup, FIFA partners such as Coca-Cola, are likely to benefit both in the short-term (through incremental sales) and long-term (building equity and brand loyalty).

- a. Define the law of demand and the law of supply. (4)
- b. Compare and contrast the demand and supply dynamics for Coca-Cola in a scenario where it sponsors the FIFA World Cup versus a scenario where it does not. Analyse the potential differences in market equilibrium. Support your explanation by showing the effect using the supply and demand framework. (8)
- c. Explain how the price elasticity of demand for Coca-Cola could be influenced during the FIFA World Cup. How might Coca-Cola adjust its pricing strategy during the World Cup, and how would this impact the quantity demanded? (8)

**(Total: 20 marks)**

5. In many countries, the telecommunications industry has historically been monopolised by a single major player over an extended period. Presently, the entry of new firms has diversified the market landscape, fostering increased competition and a multitude of firms operating within the industry.
- Discuss the main characteristics of the telecommunications industry under the monopoly. (4)
  - Identify the barriers to entry that may have sustained the monopoly in the telecommunications industry. (6)
  - Identify how consumers may benefit and face challenges with the transition from a monopoly to a competitive market in the telecommunications industry. (4)
  - Discuss the trade-offs between the benefits of increased competition and potential challenges in the telecommunications industry. (6)

**(Total: 20 marks)**

### SECTION C

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

6. a. Explain the concept of the circular flow of income in a closed economy, and illustrate by means of a diagram the key sectors involved and the flow of money and goods/services. Briefly describe the roles of households, businesses, and the government in this circular flow. (8)
- b. Explain the **THREE** approaches to measuring GDP. Provide an explanation of **each** approach to highlight the key economic activities captured by **each** method. (6)
- c. Consider a hypothetical economy with the following data for a given year: (6)
- Consumption Expenditure: €500 billion
  - Investment Expenditure: €150 billion
  - Government Expenditure: €200 billion
  - Exports: €120 billion
  - Imports: €90 billion
  - Depreciation: €30 billion
  - Net Factor Income from Abroad: €15 billion

Calculate the following:

- GDP using the Expenditure Approach. (2)
- Net Exports. (2)
- Net National Product at Factor Cost. (2)

**(Total: 20 marks)**

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7. Assume that a country is experiencing an economic downturn, with high unemployment and sluggish growth. The government decides to implement a fiscal policy aimed at boosting aggregate demand and promoting economic growth.
- Using a diagram that incorporates Long-Run Aggregate Supply and aggregate demand curves, identify and explain **TWO** specific fiscal policy measures the government could undertake to increase aggregate demand. (8)
  - Discuss the impact of the measures mentioned in 7a in terms of the multiplier effect. (6)
  - Using a diagram incorporating the Long-Run Aggregate Supply and the general price level, discuss the long-term implications of relying on fiscal policies for economic growth mentioned in 7a in terms of fiscal sustainability and inflationary pressures. (6)

**(Total: 20 marks)**

8. a. What is the balance of payments? Distinguish between the current account, and the capital and financial account. (8)
- b. Describe **THREE** causes of changes in the current account balance. (6)
- c. Assume that a country is experiencing a persistent current account deficit. Propose and explain **TWO** policy measures that the government could undertake to address the current account imbalance. (6)

**(Total: 20 marks)**

9. a. Define frictional, structural, and cyclical unemployment. Provide examples for **each** type. (6)
- b. Examine the economic and social consequences of high unemployment. Discuss the impact on individuals, communities, and the overall economy. (8)
- c. Explain **TWO** specific government policies or interventions aimed at addressing unemployment. (6)

**(Total: 20 marks)**