

MATRICULATION AND SECONDARY EDUCATION CERTIFICATE EXAMINATIONS BOARD
UNIVERSITY OF MALTA, MSIDA

SECONDARY EDUCATION CERTIFICATE LEVEL

MAY 2013 SESSION

SUBJECT:	Economics
PAPER NUMBER:	I
DATE:	17 th May 2013
TIME:	9:00 a.m. to 11:00 a.m.

Directions to candidates

**This paper has two Sections with three questions in each Section.
Answer ANY FOUR questions. All questions carry 25 marks each.**

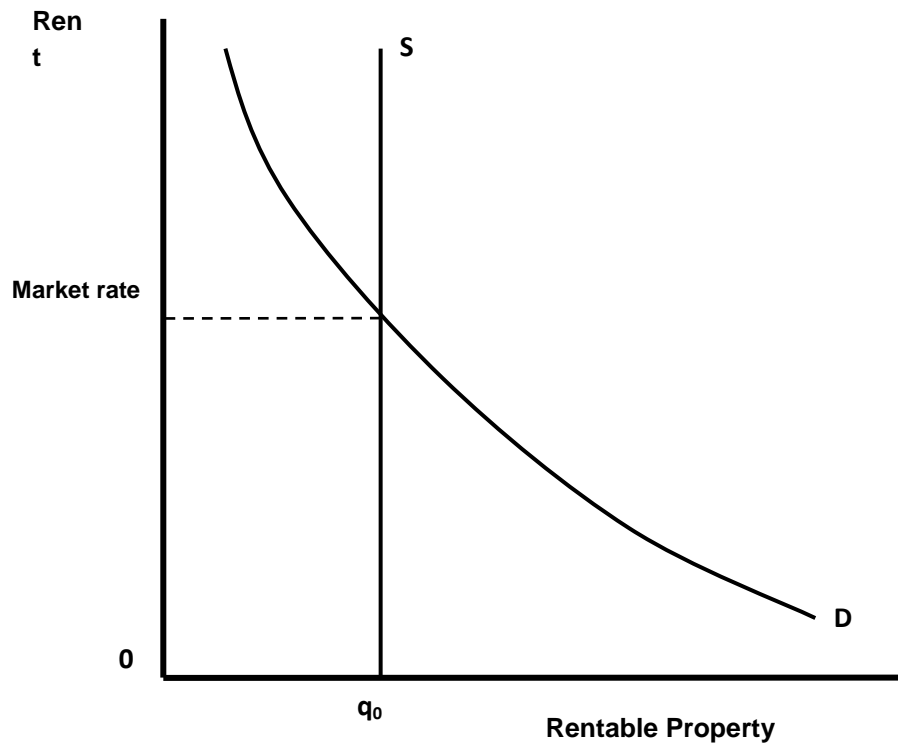
SECTION A: MICRO ECONOMICS

Question 1

Assume that in a particular economy with full employment, fixed resources and a given level of technology, the following combination of consumer and capital goods can be produced.

Consumer Goods {millions of units}	Capital Goods {millions of units}
0	50
15	45
25	37
35	25
45	0

- (a) On graph paper, plot a production possibility boundary from the above table. (4 marks)
- (b) What is the opportunity cost of increasing the production of consumer goods from 25 million units to 35 million units? What is the opportunity cost of increasing the production of capital goods from 45 million units to 50 million units? (2+2 marks)
- (c) Briefly explain why the concept of *opportunity cost* is considered as being very important in economics. (5 marks)
- (d) On the same graph:
 - (i) Mark a point (to be labeled as point A) which would represent, in your opinion, the ideal level of output for this economy. Give reasons for your choice (4 marks)
 - (ii) Illustrate what would happen if new technology were to be developed for producing both capital and consumer goods. (4 marks)
- (e) What would life be like in this economy in fifteen years' time, if today it produces only consumer goods? And, what would life be like in this economy in fifteen years' time, if today it produces only capital goods? (2+2 marks)

Question 2

Suppose that the diagram above represents the demand and supply curves for rentable property in country X on the 1st of March 2013.

- (a) Define the term 'demand' and explain why it is negatively sloped in relation to the rent rate. (3 marks)
- (b) Note that the supply of rentable property is *perfectly inelastic* at q_0 . Define the term *perfectly inelastic supply* and explain why the supply of rentable property in country X is taken to be perfectly inelastic on the date stated. (5 marks)
- (c) List **three** factors that may bring about a change in the demand for rentable property. These changes that would be graphically represented by either an inward shift or an outward shift in the demand curve. (6 marks)
- (d) In Malta, rent rates for residential properties rented out to Maltese citizens before the year 1995 are currently fixed at a *ceiling rate* of 185 Euros per annum and this rate is considered to be much lower than the *market equilibrium rate* for most properties. Explain how an equilibrium market price is determined and give reasons why Maltese governments may have felt it necessary to fix a ceiling rent rate below the equilibrium price. (2+4 marks)
- (e) How has the imposition of a ceiling rent rate affected the property market in Malta? (5 marks)

Question 3

Apple Incorporated is a good example of how a firm that produces while achieving economies of scale, can grow and out-perform its competitors. With annual profits of \$41.7 billion out of \$156.5 billion in total revenue, Apple is a global giant.

In the tablet computer market, Apple's global iPad sales lead the market. However, in this sector, its market share has declined substantially during the last three months of 2012. This has created an opportunity for competing Android and Microsoft Windows 8-based tablets to increase their market share. Indeed, Samsung, which makes the Galaxy range of tablets experienced a 263 per cent year-on-year growth. It sold 7.9 million units, up from 2.2 million a year ago, taking its market share up to 15.1 per cent.

Sources: <http://macfilos.com>
<http://www.idc.com>

- (a) Apple Incorporated is a good example of how a company may become a monopoly. Would you consider Apple Incorporated as being a monopoly? Why? (3 marks)
- (b) List **three** features that characterise a monopolistic firm. (6 marks)
- (c) Samsung experienced a 263% growth in tablet sales in 2012 over 2011. What factors do you think made this possible? (5 marks)
- (d) Why is competition beneficial? (5 marks)
- (e) In what ways is a monopoly different from a perfectly competitive market? (6 marks)

SECTION B: MACRO ECONOMICS

Question 4

- (a) Why are banks so important to an economy? (5 marks)
- (b) The main function of a bank is to lend money. Can banks lend money to their customers without limits? (4 marks)
- (c) What is the role of the Malta Stock Exchange? (5 marks)
- (d) How can the Malta Financial Services Authority (MFSA) ensure that financial intermediaries are trading fairly? (6 marks)
- (e) Explain how the functions of the Central Bank of Malta have changed upon the introduction of the Euro. (5 marks)

Question 5

These figures have been provided by the NSO and relate to the Maltese government's revenue and expenditure for 2010 and 2011:

	Government Revenue			Government Expenditure			Deficit / Surplus
	Current Revenue	Capital Revenue	Total	Current Expenditure	Capital Expenditure	Total	
	€millions	€millions	€millions	€millions	€millions	€millions	€millions
2010	2314.10	110.00	2424.10	2432.10	214.70	2646.80	?
2011	2460.80	113.20	2574.00	2542.90	208.10	2751.00	?

- Distinguish between capital expenditure and current expenditure. (4 marks)
- Income Tax and Value Added Tax form part of government revenue. To what extent can each be described as a direct or indirect form of taxation? (6 marks)
- Calculate the budget surplus or budget deficit for 2010 and 2011. (6 marks)
- What is meant by the term 'budget deficit'? (4 marks)
- Are deficits always to be considered as necessarily bad for the economy? (5 marks)

Question 6

Technology has emerged as a major factor that contributes to the difference in growth between a developed and a developing country.

- Describe **three** characteristics of developing countries. (6 marks)
- Give **two** major reasons with brief explanations as to why developing countries lack access to appropriate technology. (4 marks)
- How and why do birth rates and death rates change as economic development takes place? (4 marks)
- What action can be taken to assist developing economies achieve economic growth? (6 marks)
- How do female educational levels and employment influence economic development in a country? (5 marks)

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SECONDARY EDUCATION CERTIFICATE LEVEL

MAY 2013 SESSION

SUBJECT:	Economics
PAPER NUMBER:	IIA
DATE:	18 th May 2013
TIME:	9:00 a.m. to 11:00 a.m.

Directions to Candidates

**This paper has two Sections, with four questions in each Section.
Answer FOUR questions, at least ONE from each Section.
All questions carry 25 marks each.**

SECTION A: MICRO ECONOMICS

Question 1

- (a) Through technological improvements in communications and transportation as well as the removal of trade barriers, the world is becoming one global market place. Explain what a market is and how it operates in order to bring about greater efficiency in the allocation of scarce resources. (7 marks)
- (b) Tourism is one of Malta's most important industries. Would you consider the demand for a holiday in Malta as being price elastic or price inelastic? (9 marks)
- (c) As in all other sectors of industry, tourism in Malta incurs certain *externalities*. With the use of examples, explain how Malta is being affected by such externalities. (9 marks)

Question 2

- (a) What is the difference between producing in the *short-run* and producing in the *long-run*? (6 marks)
- (b) Why do firms generally face *short-run average total cost* curves that are U-shaped? (9 marks)
- (c) The *tertiary sector* accounts for the largest proportion of the current level of employment in Malta. What is meant by the *tertiary sector* and why should growth in this sector be considered as beneficial to the island's economy? (10 marks)

Question 3

- (a) Under Maltese law, partnerships may be either: (i) Ordinary Partnerships, (ii) Limited Partnerships or (iii) Companies. Briefly explain the difference between these three types of business organisations. (9 marks)
- (b) Explain the role of Malta Enterprise in helping businesses to set up in Malta. (7 marks)
- (c) Describe at least three main sources of finance for a Maltese business. (9 marks)

Question 4

- (a) It is said that *perfect competition*, should it exist, would ensure the best use of scarce resources. Why is this so? (8 marks)
- (b) Monopolies are often accused of creating barriers against competition and making excessive profits. How can the monopolistic firm maintain these profits even in the long term? (9 marks)
- (c) In your opinion, are Maltese consumers adequately protected from the power of monopolies? (8 marks)

SECTION B: MACRO ECONOMICS

Question 5

- (a) Draw and explain the circular flow of income diagram. (8 marks)
- (b) Explain how, in any simple economy, the value of output by firms is equal to the value of incomes of households. (8 marks)
- (c) Discuss the problems that are encountered when measuring National Income. (9 marks)

Question 6

- (a) What is meant by full employment? Does this mean that unemployment has fallen to zero? (8 marks)
- (b) What problems does hidden employment pose for the economy? (8 marks)
- (c) What government action can be taken to reduce unemployment? (9 marks)

Question 7

- (a) The Balance of Payments is a list of a country's transactions with the rest of the world. By referring to the major components of the Balance of Payments, explain how these would be affected by an increase in Maltese workers' real income. (8 marks)
- (b) Discuss the causes of a Balance of Payments deficit. (8 marks)
- (c) How can a Balance of Payments deficit be reduced or eliminated? (9 marks)

Question 8

- (a) What are the benefits and drawbacks of joining the Eurozone? (8 marks)
- (b) What do European Union member countries have to achieve in order to join the Eurozone? (8 marks)
- (c) The value of the Euro when compared to the Sterling has decreased substantially over this year. How does this affect:
 - (i) Maltese consumers who buy online goods from the UK?
 - (ii) British tourists coming to Malta?
 - (iii) Exports by Maltese firms to the UK? (9 marks)

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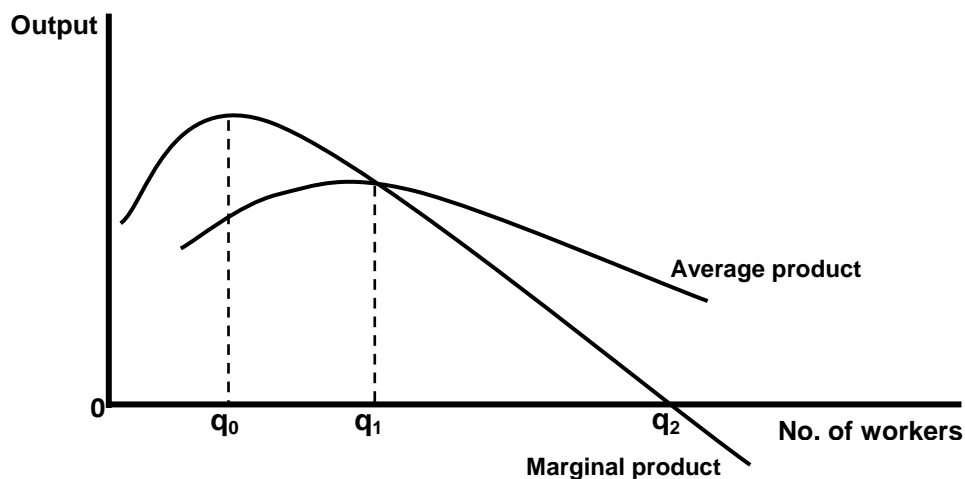
SUBJECT: **Economics**
 PAPER NUMBER: **IIB**
 DATE: **18th May 2013**
 TIME: **9:00 a.m. to 11:00 a.m.**

Directions to Candidates

**This paper has two Sections, with four questions in each Section.
 Answer FOUR questions, at least ONE from each Section.
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SECTION A: MICRO ECONOMICS

Question 1



The diagram above shows the average and marginal product curves when labour inputs are changed in relation to fixed factors of production, such as land and capital.

- Define Total Product (TP), Average Product (AP) and Marginal Product (MP). (6 marks)
- At what employment level is:
 - Total output maximised?
 - Output per worker maximised? (2+2 marks)
- What is meant by the law of Diminishing Returns and how does it affect a business firm? (7 marks)
- On the diagram above, at what employment level could it be stated that the law of Diminishing Returns has started to set in? (2 marks)
- Is it possible for a firm to overcome the negative effects of the law of Diminishing Returns? Explain your answer. (6 marks)

Question 2

Quantity (000s)	Revenue (€ 000s)
0	-
10	100
11	110
12	120
13	130
14	140
15	150

The table above lists the revenue earned by a firm in relation to its output.

- (a) From the table above, calculate the firm's marginal and average revenue. (4 marks)
- (b) At what price/s is the firm's output being sold? (3 marks)
- (c) (i) At what level of output does the firm break-even if its total cost is equal to €120,000? (3 marks)
(ii) 40 per cent of these total costs are fixed costs, and the rest are variable costs. Distinguish between these two types of costs. (5 marks)
- (d) State **three** ways by which monopolies may prevent competition. (6 marks)
- (e) State **two** reasons why monopolies may be advantageous to consumers. (4 marks)

Question 3

- (a) Briefly explain the difference between (i) Partnerships, and (ii) Limited Liability Companies. (6 marks)
- (b) What is *Malta Enterprise*? List **three** ways in which *Malta Enterprise* may help businesses to set up in Malta. (7 marks)
- (c) Describe **two** sources of finance for a Maltese business. (6 marks)
- (d) List **three** reasons why state-owned enterprises should be privatised. (6 marks)

Question 4

- (a) Tourism is one of Malta's most important industries. List **four** factors that you would consider as being important determinants of tourism demand by foreigners to Malta. (6 marks)
- (b) The demand for holidays are said to be price elastic. Would you agree with such a statement? Give **two** reasons for your answer. (5 marks)
- (c) Why is knowledge of demand elasticities important to an entrepreneur involved in the tourism industry? (4 marks)
- (d) If during a particular summer season, hotels in Malta are *fully booked* and consumers are willing to pay, for example 15% more, what would the price elasticity of the supply of hotel rooms be? Explain your answer. (4 marks)
- (e) Over one million tourists visit Malta annually. In your opinion, should Malta aim at expanding the tourism industry on the island by investing in the building of more hotels? Give reasons for your answer. (6 marks)

SECTION B: MACRO ECONOMICS**Question 5**

The following table shows the expenditure of Country X over two years:

	2011 € millions	2012 € millions
Personal consumption expenditures	1,564	1,642
Gross private domestic investment	414	396
Government purchases of goods and services	2,654	2,867
Exports	27	30
Imports	35	25
Capital consumption	8	7

- (a) Distinguish between Gross Domestic Product, Gross National Product and Net National Product. (6 marks)
- (b) From the table above, calculate the Gross National Product and the Net National Product for 2011 and 2012. (4 marks)
- (c) Calculate the rate of change in Gross National Product between the two years. (5 marks)
- (d) How has Gross National Product changed over these two years? (4 marks)
- (e) What causes Gross National Product to change? (6 marks)

Question 6

- (a) What is the price of labour? (2 marks)
- (b) Illustrate by means of a diagram how the price of labour is calculated. (3 marks)
- (c) Why is it stated that the demand for labour is a derived demand? (5 marks)
- (d) Distinguish between frictional and general unemployment. (6 marks)
- (e) What are the costs of unemployment to (i) the unemployed, (ii) the government and (iii) the economy? (9 marks)

Question 7

- (a) What is the balance of payments? (4 marks)
- (b) Distinguish between the current account and the capital account in a balance of payments. (6 marks)
- (c) In which of these sub-accounts – **capital** or **current** – will each of the following transactions be recorded?
 - (i) A Maltese resident buys online goods from the UK.
 - (ii) A Maltese manufacturing firm buys raw materials from Japan.
 - (iii) Italian nationals buy shares in local banks.
 - (iv) A German Company decides to build a factory in Malta. (4 x 1 mark = 4 marks)
- (d) Referring to question 7(c) above, explain what effect each would have on the balance of payments. (8 marks)
- (e) Does the balance of payments always balance? (3 marks)

Question 8

- (a) What is a trading bloc? (3 marks)
- (b) Discuss **two** objectives of a trading bloc. (6 marks)
- (c) Discuss **two** benefits for a country that adopts the Euro currency. (6 marks)
- (d) Discuss **two** limitations that may be associated with having the Euro currency. (6 marks)
- (e) What major role does the European Central Bank play in the European Union? (4 marks)