

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

**SECONDARY EDUCATION CERTIFICATE LEVEL**

**MAY 2014 SESSION**

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SUBJECT:	<b>Economics</b>
PAPER NUMBER:	I
DATE:	27 <sup>th</sup> May 2014
TIME:	4:00 p.m. to 6:00 p.m.

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**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**

Below are the total costs incurred by a small firm when producing in the short run.

Quantity	Total Costs (€)
0	50
1	170
2	240
3	280
4	370
5	600

- (a) With the use of examples explain what types of costs make up total costs. (4 marks)
- (b) On graph paper, plot the firm's average fixed costs, average variable costs, average total costs and marginal costs. (8 marks)
- (c) What do you note about the shapes of these four cost curves? Explain your answer. (4 marks)
- (d) How does the marginal cost curve explain the Law of Diminishing Marginal Returns? (4 marks)
- (e) What is meant by the terms *short run* and *long run* production? (5 marks)

## **Question 2**

Data about the Maltese economy indicates that the tertiary sector is currently the greatest contributor to economic growth, while both the primary and secondary sectors are in decline.

- (a) What sources of data would you look for in order to confirm or deny the above statement about the Maltese economy? (3 marks)
- (b) With the use of examples, explain what is meant by the *primary*, *secondary* and *tertiary sectors* of an economy. (6 marks)
- (c) Name at least *three* factors that may contribute to the expansion of the tertiary sector. (6 marks)
- (d) Why is an expansion of the tertiary sector an indicator of increased wealth in an economy? (5 marks)
- (e) Briefly explain the reason/s why the primary and secondary sectors are experiencing a decline. (5 marks)

## **Question 3**

The USA is the world's largest producer of grain. Hence the global market for grain will be directly affected by events there and in other big grain producer countries such as Canada, Argentina and Russia.

According to a report issued by the Reuters news agency on January 6<sup>th</sup> 2014, the coldest weather to hit the central United States in two decades disrupted grain and livestock shipments throughout the nation's farm belt. Indeed, U.S. grain prices rose as the bitterly cold temperatures threatened to damage wheat crops in the United States while a heat-wave put Argentina's corn harvest at risk. Soybean\* prices jumped as a result of market expectations that the brutal U.S. cold would increase demand for livestock feed.

(\*Soya is used in the production of cattle feed)

- (a) Define the terms *demand* and *supply* and explain what is meant by a market. (6 marks)
- (b) List *three* factors that determine demand and *three* factors that determine supply for grain. (6 marks)
- (c) Explain the relationship between demand and price and the relationship between supply and price. (6 marks)
- (d) Both the demand for and the supply of grain tend to be price inelastic. What is meant by the term *price inelastic*? (3 marks)
- (e) Explain why the demand and supply of grain are indeed price inelastic. (4 marks)

**SECTION B: MACRO ECONOMICS**

**Question 4**

“The Accountant General announces the issue of €100,000,000 Malta Government Stocks with rates ranging from 3.2% to 4.45%. The price of each stock offered for subscription by the public shall be announced to the Malta Stock Exchange.”  
 Source: Malta Treasury, *February 2014*

- (a) What is the role of money in an economy? (4 marks)
- (b) What is the money supply made up of? (4 marks)
- (c) What do you think are the reasons for the government to sell government stocks? (6 marks)
- (d) How does this stock issue affect the money supply in the economy? (6 marks)
- (e) What effect will the selling of government stocks have on commercial banks? (5 marks)

**Question 5**

The table below refers to Malta’s Balance of Payments position for the first and second quarter of 2013:

2013	Current Account (Millions of €)								Capital Account (Millions of €)	
	Visible Trade		Invisible Trade		Income		Current Transfers			
	+	-	+	-	+	-	+	-	+	-
Q1	752.7	962.6	796.0	566.7	431.9	570.4	259.1	235.4	18.1	1.8
Q2	695.5	882.7	964.2	597.7	412.8	531.5	228.3	206.0	29.2	1.6

Source: National Statistics Office, *December 2013*

- (a) Distinguish between visible and invisible trade and give examples. (4 marks)
- (b) Calculate the balance on the current account for Q1 and Q2. (6 marks)
- (c) In which quarter (Q1 or Q2) was the result better? What do you think contributed to a better result in the better quarter? (1, 4 marks)
- (d) Explain why Malta may have a visible trade deficit, but still have a current account surplus in its Balance of Payments. (5 marks)
- (e) How does an increase in the value of the Euro affect Malta’s Balance of Payments position? (5 marks)

**Question 6**

According to the European Commission, the number of women in the working population in Malta still remains low, and the gender employment gap is the highest in the EU.

Source: European Commission, *January 2014*

- (a) Define *working population*. (3 marks)
- (b) What measures can the government take to increase female participation in the workforce? (6 marks)
- (c) What affects the demand for labour? (4 marks)
- (d) Discuss *two* aims of trade unions. (6 marks)
- (e) How do trade unions influence wage rates and employment levels? (6 marks)

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SUBJECT:	<b>Economics</b>
PAPER NUMBER:	IIA
DATE:	28 <sup>th</sup> May 2014
TIME:	4:00 p.m. to 6:00 p.m.

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**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) Explain the terms *specialisation* and *division of labour*. (6 marks)
- (b) List *one* advantage and *one* disadvantage of specialisation to: (a) firms, (b) workers and (c) the national economy. (6 marks)
- (c) With the use of examples, explain how specialisation has helped the Maltese economy to develop. (7 marks)
- (d) What is meant by the term *diversification*? How would a small island economy such as Malta benefit from diversification? (2, 4 marks)

**Question 2**

In a press release, dated 4<sup>th</sup> December 2013, the European Commission announced that it had “cleared under the EU Merger Regulation, the proposed acquisition of most of Nokia Corporation's devices and services (D&S) business by Microsoft Corporation”.

Nokia mainly produces and sells smart-phones and feature phones while Microsoft specialises in mobile operating systems (OS), mobile applications (apps) and enterprise mail server software. The Commission concluded that the merger would not lead to competitors, such as Samsung and Apple, being shut out from the market.

- (a) What does the term *merger* mean? Why do institutions such as the European Commission have regulations that assess and control the merger of firms such as Nokia and Microsoft? (2, 5 marks)
- (b) Why may firms, such as Microsoft, feel the need to take over other firms? (6 marks)
- (c) List and briefly explain *two* forms of integration. (6 marks)
- (d) Other than through integration or amalgamation, how can a firm grow? (6 marks)

**Question 3**

- (a) Perfect competition is a theoretical model. It is based on a number of assumptions that are very difficult to achieve in practice. Explain *three* of these assumptions. (6 marks)
- (b) Explain why society would benefit from a market that would be perfectly competitive. (5 marks)
- (c) (i) What are monopolies? (2 marks)  
(ii) List and explain *two* ways of how monopolies can be created. (6 marks)
- (d) Do consumers get any benefits from the existence of monopolies? Explain your answer. (6 marks)

**Question 4**

- (a) Multinational firms are major investors in Malta. Explain what multinational firms are and list *four* reasons why they may choose Malta as a place where to invest and set up their business. (2, 4 marks)
- (b) List and explain *four* factors that determine the location of local businesses in Malta. (8 marks)
- (c) Explain the role of the *Malta Environmental and Planning Agency* in Malta's industrialisation process. (5 marks)
- (d) Why may it be stated that Malta's labour force is becoming more *geographically* and *occupationally* mobile? (6 marks)

**SECTION B: MACRO ECONOMICS**

**Question 5**

- (a) What is the difference between a progressive and a proportional tax? (4 marks)
- (b) Discuss *three* aims of taxation. (9 marks)
- (c) How can a reduction in taxation affect employment levels? (6 marks)
- (d) What effects may high rates of corporation tax have on investment? (6 marks)

**Question 6**

- (a) What is *monetary policy*? (4 marks)
- (b) How can monetary policy be used to control inflation? (6 marks)
- (c) Inflation has increased partly as a result of the fall in the value of the Euro. How does a fall in the exchange rate likely to increase inflation? (6 marks)
- (d) In what ways does a rise in inflation affect consumption, savings and investment? (9 marks)

**Question 7**

- (a) One of the ways to reduce unemployment is to increase government spending. How can this measure reduce unemployment levels? (6 marks)
- (b) Briefly discuss *two* other supply-side measures to reduce unemployment. (6 marks)
- (c) With the help of a diagram, explain the relationship between unemployment and wage rates. (5 marks)
- (d) Identify and explain *two* possible consequences of high rates of unemployment for the economy. (8 marks)

**Question 8**

Malta is experiencing an ageing population.

- (a) What does the shape of a population pyramid say about a country? (4 marks)
- (b) Why do less economically developed countries experience high birth rates? (6 marks)
- (c) Discuss *two* costs of providing pensions and social services to meet the needs of an ageing population. (6 marks)
- (d) Apart from the costs of providing pensions, discuss *three* other problems that are created when a country has an ageing population. (9 marks)

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PAPER NUMBER:	IIB
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Answer FOUR questions, at least ONE from each Section.  
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**SECTION A: MICRO ECONOMICS**

**Question 1**

In a press release, dated 4<sup>th</sup> December 2013, the European Commission announced that it had “cleared under the EU Merger Regulation, the proposed acquisition of most of Nokia Corporation's devices and services (D&S) business by Microsoft Corporation”.

Nokia mainly produces and sells smart-phones and feature phones while Microsoft specialises in mobile operating systems (OS), mobile applications (apps) and enterprise mail server software. The Commission concluded that the merger would not lead to competitors, such as Samsung and Apple, being shut out from the market.

- (a) By purchasing the shares of Nokia Corporation, Microsoft has initiated a process by which the two companies will eventually merge.
  - (i) What does the term ‘merger’ mean? (2 marks)
  - (ii) State *two* reasons why companies merge. (6 marks)
- (b) Explain the difference between *vertical*, *horizontal* and *lateral* integration. (9 marks)
- (c) What is the difference between *internal* and *external growth* of a firm? (4 marks)
- (d) Why has the EU Commission ‘cleared’ or approved the acquisition by Microsoft Corporation of Nokia Corporation’s devices and services business? (4 marks)

**Question 2**

- (a) What is *perfect competition*? (5 marks)
- (b) Briefly explain *three* characteristics of perfect competition. (6 marks)
- (c) Why would society benefit from a market that would be perfectly competitive? (5 marks)
- (d) What is a *monopoly*? Briefly explain *three* factors that make up monopolies. (3, 6 marks)

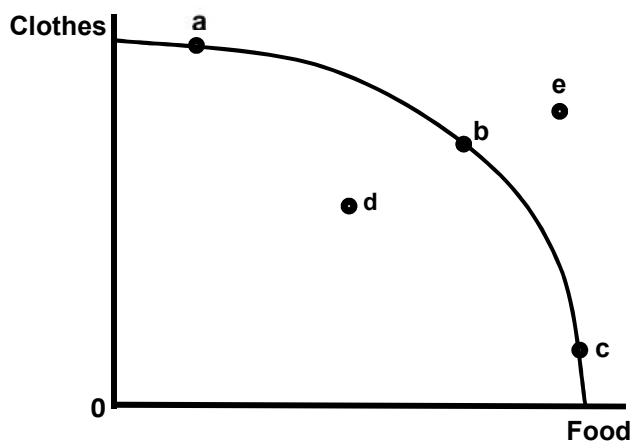


**Question 3**

- (a) Explain *three* reasons why foreign firms may choose Malta as a place where to invest and set up their business. (9 marks)
- (b) Malta’s first Industrial Estate was set up at Marsa. Listing at least *two* factors, can you explain why this location was chosen? (6 marks)
- (c) What is meant by the terms: *geographical* and *occupational* mobility of labour? (4 marks)
- (d) Explain why the Maltese labour force is becoming both geographically and occupationally mobile. (6 marks)

**Question 4**

The diagram below represents the *Production Possibility Boundary* curve of a country where, with all its resources in full employment, it may produce different combinations of food and / or clothes.



- (a) What is a *Production Possibility Boundary*? (4 marks)
- (b) (i) If the country decides to specialise in the production of clothes, which combination of output levels would it chose: *a, b, c, d* or *e*? What advantage and what disadvantage would this have? (5 marks)
- (ii) What do points *d* and *e* represent? (4 marks)
- (c) Explain what is meant by the term *division of labour* and list *two* advantages and *two* disadvantages of division of labour. (2, 4 marks)
- (d) With the use of examples, list and describe *three* specialised sectors of employment in Malta. (6 marks)

## **SECTION B: MACRO ECONOMICIS**

### **Question 5**

A government has a policy of reducing taxes on income while increasing taxes on spending, such as VAT.

- (a) Distinguish between direct and indirect taxes. By referring to the above taxes, state if they are 'direct' or 'indirect taxes'. (4, 2 marks)
- (b) Briefly explain *two* ways of how government spending affects living standards. (6 marks)
- (c) Government spending on living standards is only one reason for charging taxes. Discuss *two* other reasons for governments to charge taxes. (6 marks)
- (d) What is the effect of a decrease in income tax on consumption? (7 marks)

### **Question 6**

- (a) Define *inflation*. (4 marks)
- (b) Distinguish between *cost-push* and *demand-pull* inflation. (6 marks)
- (c) In times of inflation, there are those who gain and those who lose. Classify the following into gainers or losers of inflation:
  - i. Property owners who offer their houses for rent.
  - ii. A university student who takes out a student loan to buy a computer.
  - iii. Commercial banks who give out loans to the general public.
  - iv. A family who decides to take out a loan to purchase a new home.
  - v. The owner of a car rental company leasing out cars to the public.
  - vi. Parents who deposit their children's allowance into savings accounts. (6 marks)
- (d) Discuss *three* measures that can be taken to control inflation. (9 marks)

### **Question 7**

- (a) Briefly explain the following types of unemployment: *general*, *structural* and *frictional*. (6 marks)
- (b) Explain *two* effects of unemployment on the (i) unemployed and (ii) the economy. (7 marks)
- (c) Discuss *two* measures that can be taken by the government to reduce unemployment. (6 marks)
- (d) Explain *two* economic advantages of a fall in unemployment. (6 marks)

*Please turn the page.*

**Question 8**

- (a) How does immigration affect Malta's economy? (6 marks)
- (b) Apart from immigration, explain what affects the size of Malta's population. (6 marks)
- (c) Malta is experiencing an ageing population. What is meant by an ageing population? (4 marks)
- (d) Explain *three* factors that have contributed to the increase in Malta's ageing population. (9 marks)