

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

**SECONDARY EDUCATION CERTIFICATE LEVEL**

**MAY 2015 SESSION**

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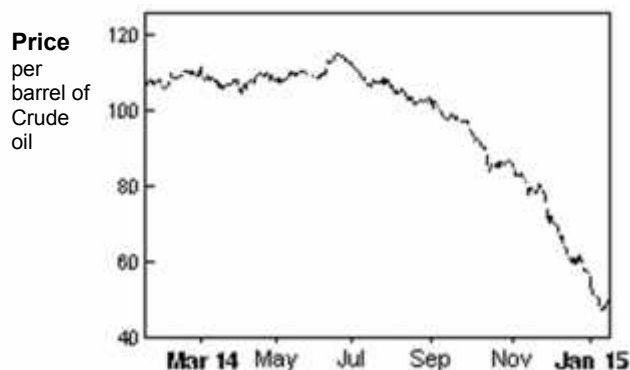
SUBJECT:	<b>Economics</b>
PAPER NUMBER:	I
DATE:	14 <sup>th</sup> May 2015
TIME:	9:00 a.m. to 11:00 a.m.

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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**



The market price of oil has plunged by more than half (-53.54%) since June 2014 to below \$50 a barrel, a mere seven months later. Why is the price of oil dropping so fast? The answer boils down to the simple economics of supply and demand.

In the United States, a non-OPEC country, domestic production has nearly doubled over the past six years. This is a result of heavy investment in the exploitation of new domestic sources of oil called '*shale oil*' through a new but expensive technology known as '*fracking*'. This increase in crude oil output has replaced oil imports from OPEC countries such as Venezuela and Saudi Arabia. Alternative sources of energy such as solar and wind power have also contributed to the need for less oil imports. On the demand side, the economies of Europe and fast developing countries, such as China and Brazil, are weakening. Furthermore, airlines and motor vehicles, and other big energy consumers, are becoming more energy-efficient. So demand for fuel is slowing down a bit.

According to analysts, a central factor in the sharp price drops is the continuing unwillingness of OPEC, a cartel of oil producing countries, to intervene in order to stabilize over-supplied markets. Prices of OPEC's crude oil have fallen by about 40% since the organization failed to agree on reducing output at a late November meeting in Vienna.

Source: New York Times, January 15<sup>th</sup> 2015.

- (a) Define '*market price*' and, with the use of a diagram, explain how it is determined. (5 marks)
- (b) List **three** factors that determine the demand and **three** factors that determine the supply of crude oil. (6 marks)
- (c) After having read carefully the passage above and by using the same diagram used for answering question (a), illustrate and explain how changes in the demand and supply of crude oil have brought about a decline in price. (6 marks)
- (d) The organisation of Oil Producing and Exporting Countries (OPEC) is referred to as a cartel. What is a *cartel* and why may such an organisation dominate over other firms in the same industry? (4 marks)
- (e) Can you suggest a reason why OPEC had chosen not to intervene in order to reduce oil production at their last November meeting in Vienna? (4 marks)

### Question 2

1	Price of Wine	Falls by 10%	Demand for Wine	Increases by 5%
2	Disposable Income	Increases by 5%	Demand for Wine	Increases by 15%
3	Price of Beer	Increases by 5%	Demand for Wine	Falls by 0.25%

The above data shows the percentage changes in demand by consumers as they respond to changes in the price of wine, their disposable income, and the price of beer.

- (a) Work out the respective price, income and cross *elasticity of demand* for wine. (6 marks)
- (b) What information can be gathered about the demand for wine from these three demand elasticities? (6 marks)
- (c) List at least **one** factor that determines the size or magnitude of **each** of the three types of elasticities that you have measured from the data above. (3 marks)
- (d) Like most agricultural products, the price elasticity of supply for wine can be considered as highly inelastic, particularly in the short-run. Define *price elasticity of supply* and list **two** factors that explain why the price elasticity for the supply of wine is inelastic. (5 marks)
- (e) Suppose that through an aggressive advertising campaign by wine producers, consumers' tastes shift in favour of a greater demand for wine. Illustrate with the use of a diagram how the price and quantity of wine would be affected. (5 marks)

### Question 3

Labour Market Indicators in Malta			
		2013	2014
		2 <sup>nd</sup> Quarter	2 <sup>nd</sup> Quarter
		April, May	April, May
<b>Labour Force</b>		187,195	187,893
<b>Employed:</b>		174,843	176,969
<i>By type of employment</i>	<i>Full time</i>	147,896	149,111
	<i>Part time with reduced hours</i>	5,558	3,731
	<i>Part time</i>	21,389	24,127
	<i>Unemployed</i>	12,352	10,924
<b>Employment rate %</b>		<b>60.6%</b>	<b>61.6%</b>
	Male	74.3%	74.6%
	Female	46.4%	48.2%

Source: NSO, 2014

- (a) According to data issued by the National Statistics Office (NSO) of Malta, the island’s labour force stood at 187,893 in the 2<sup>nd</sup> quarter of 2014. Define the term *labour force* and list **three** factors that determine changes in the size of Malta’s working population. (5 marks)
- (b) Why does data related to employment levels change significantly when measured and compared on a quarterly basis? (4 marks)
- (c) From the data provided, it may be noted that the female *employment rate* as a proportion of Malta’s working population is rising faster than that of males. Can you suggest any reasons why this is so? (4 marks)
- (d) The labour supply curve is said to be ‘*backward bending*’. With the use of a diagram, explain what is meant by this term. (6 marks)
- (e) With the use of the same diagram used for answering question (d), explain:
  - (i) Why the demand curve for labour is downward sloping; (3 marks)
  - (ii) How wages are determined. (3 marks)

**SECTION B: MACRO ECONOMICS**

**Question 4**

*A number of indicators can be used to determine the level of economic development of a country.*

The table below gives three measures of two different countries, Germany and Gambia, for 2011 and 2013.

	2011		2013	
	Germany	Gambia	Germany	Gambia
Gross National Income per capita (US dollars \$)	34,854	1,807	43,049	1,557
Average years of schooling (years)	12.2	2.8	12.9	2.8
Life expectancy (years)	80.4	58.5	80.7	58.8

Source: United Nations, 2011, 2013

- (a) By referring to the table above, comment on the economic development of Germany and Gambia. (3 marks)
- (b) Which country has experienced economic growth? Give **two** reasons for your answer. (4 marks)
- (c) Gambia is characterised as a developing country. Other than the indicators outlined in the table above, explain **three** characteristics of developing countries. (6 marks)
- (d) Highlight **two** problems faced by Germany in its efforts to achieve economic growth. (6 marks)
- (e) Examine **two** measures the government of Gambia can introduce for it to achieve economic development. (6 marks)

**Question 5**

The table below shows the production and labour units of apples and trucks in two countries.

	<b>Apples (bushels)</b>	<b>Trucks</b>	<b>Labour Units</b>
<b>United States</b>	5	2	1000
<b>Honduras</b>	1	1	1000

- (a) Distinguish between absolute and comparative advantage. (4 marks)
- (b) Which country has an absolute advantage in both apples and trucks? Explain your answer. (4 marks)
- (c) What is the opportunity cost of producing apples in the United States and in Honduras? (6 marks)
- (d) Which country has a comparative advantage in apples? Explain your answer. (5 marks)
- (e) Discuss briefly *three* advantages that countries gain from trading internationally. (6 marks)

**Question 6**

*The 2014 economic indicators for Malta show that the budget deficit of 2.7% of the country's Gross Domestic Product for 2013 was reduced to 2.1% in 2014. The target for 2015 is 1.6%.*

Source: Ministry of Finance, Malta, January 2015

- (a) What is a budget deficit? (3 marks)
- (b) How does the budget deficit affect the national debt? (4 marks)
- (c) A budget deficit can be reduced by decreasing government expenditure. Discuss *two* advantages that this measure would have on the economy. (6 marks)
- (d) Decreasing government expenditure would also bring with it some disadvantages. Discuss *two* disadvantages that would result from reducing government expenditure as a means of reducing the budget deficit. (6 marks)
- (e) Apart from reducing government expenditure, discuss *two* other measures that can be taken to reduce a budget deficit. (6 marks)

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**SECONDARY EDUCATION CERTIFICATE LEVEL**

**MAY 2015 SESSION**

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SUBJECT:	<b>Economics</b>
PAPER NUMBER:	IIA
DATE:	15 <sup>th</sup> May 2015
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) Distinguish between *price competition* and *non-price competition*. (6 marks)
- (b) In what ways would consumers benefit from having many firms operating in a market for goods and services? (7 marks)
- (c) List and explain **three** barriers that firms such as Apple, Coca Cola or McDonald's use in order to prevent other firms from entering into the industry. (6 marks)
- (d) With reference to Malta, list and describe **two** ways how consumers may be protected from the abusive behaviour of monopolistic firms. (6 marks)

**Question 2**

- (a) Define and explain the importance of SMEs in the Maltese economy. (6 marks)
- (b) Despite the big advantages that can be gained from *internal economies of scale*, most firms both in Malta and abroad, are SMEs. Explain what is meant by internal economies of scale and list **three** ways how such economies may be gained in practice. (8 marks)
- (c) List and briefly explain **three** reasons why most firms are SMEs. (6 marks)
- (d) Briefly describe the role of *Malta Enterprise* in helping SMEs. (5 marks)

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**Question 3**

<b>Output</b>	0	1	2	3	4	5	6
<b>Marginal Costs</b>	-	€1	€3	€5	€7	€9	€11
<b>Average Costs</b>	-	€6.00	€4.50	€4.67	€5.25	€6.00	€6.83

The table above provides information about a firm's marginal costs and average costs when producing various quantities of output.

- (a) Explain what *marginal costs* are and why knowledge of these costs is important for a firm. (6 marks)
- (b) Define *average total costs* and explain why these costs fall as output increases. (6 marks)
- (c) (i) Total costs are made up of fixed and variable costs. List **two** examples of *fixed costs* and **two** examples of *variable costs*. (4 marks)
- (ii) From the data provided, work out the firm's *total costs* between the outputs of 0 and 6. Show your workings. (3 marks)
- (d) Opportunity costs are another type of costs. Explain what *opportunity costs* are and list **two** examples of such costs that may be incurred by an entrepreneur. (6 marks)

**Question 4**

- (a) Define the terms *private costs* and *social costs* and explain the difference between the two. (5 marks)
- (b) Using a practical example, explain how *market failure* may arise and why this would lead to resources being used inefficiently. (7 marks)
- (c) Malta's natural environment is being threatened by urban and industrial development. Briefly explain why the natural environment should be considered as an economic resource. (7 marks)
- (d) With reference to Malta, briefly outline **two** ways how society may get its citizens to be more conscious of the need to preserve the environment, both natural and urban. (6 marks)

**SECTION B: MACRO ECONOMICS**

**Question 5**

- (a) Assuming that prices have not changed, outline **three** causes that bring about a change in national income. (6 marks)
- (b) What possible advantages may the change in national income bring to the people of Malta? Discuss **two** advantages. (6 marks)
- (c) Does a rise in national income always mean that the economy is better off? Give **three** reasons to support your answer. (7 marks)
- (d) Discuss **two** possible ways in which the government could help to improve the standard of living in Malta. (6 marks)

**Question 6**

- (a) What is the Balance of Payments? (4 marks)
- (b) Discuss briefly the main components of the Balance of Payments. (6 marks)
- (c) Outline and explain **three** effects of a rising trade deficit on the Balance of Payments on the Maltese economy. (9 marks)
- (d) How would a fall in the value of the Euro affect the Balance of Payments? (6 marks)

**Question 7**

- (a) Distinguish between *money* and the *barter system*. (4 marks)
- (b) Discuss **four** advantages that money has over the barter system. (8 marks)
- (c) “*With a rise in inflation, the value of money is falling*”. Explain this statement. (4 marks)
- (d) Explain **three** factors that may affect the amount of money saved and borrowed in the Maltese economy. (9 marks)

**Question 8**

- (a) Discuss briefly **three** economic objectives of any government. (6 marks)
- (b) The interest rate is the main instrument of monetary policy and can be used to affect government economic objectives. Discuss **three** effects that a fall in interest rates might have. (9 marks)
- (c) Evaluate **two** supply-side policies which can be used to improve labour productivity. (6 marks)
- (d) How does an ageing population affect Malta’s economic development? (4 marks)

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SUBJECT:	<b>Economics</b>
PAPER NUMBER:	IIB
DATE:	15 <sup>th</sup> May 2015
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) (i) What is meant by the term *market competition*? (3 marks)  
(ii) List **two** ways by which firms may compete with each other. (4 marks)
- (b) List **three** benefits of competition. (6 marks)
- (c) *Perfect competition* is a theoretical model of a market where competition is at its best. Outline briefly **three** characteristics of such a market structure. (6 marks)
- (d) List **three** advantages and **three** disadvantages of monopolies. (6 marks)

**Question 2**

- (a) (i) Define the term *self-sufficiency*. (3 marks)  
(ii) Briefly explain the difference between *specialisation* and *division of labour*. (4 marks)
- (b) List **three** benefits and **three** disadvantages derived from *division of labour*. (6 marks)
- (c) Most firms in Malta and abroad are considered to be SMEs. What are SMEs and why do they prefer to remain so? List **two** reasons. (6 marks)
- (d) Outline **two** ways in which *Malta Enterprise* helps SMEs. (6 marks)

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### **Question 3**

- (a) Define:
- (i) Total Costs,
  - (ii) Marginal Costs, and
  - (iii) Average Total Costs. (6 marks)
- (b) Costs may be either *fixed* or *variable* in the short run. List **three** examples of fixed costs and **three** examples of variable costs. (6 marks)
- (c) (i) What is meant by the Law of Diminishing Returns? (4 marks)  
(ii) In what way is production in the *short run* different from production in the *long run*? (4 marks)
- (d) Why would a firm benefit when its average total costs fall? (5 marks)

### **Question 4**

*Unlike private costs, social costs are considered as externalities*

- (a) (i) Define the term *externalities*. (3 marks)  
(ii) List **two** examples of *private costs* and **two** examples of *social costs*. (4 marks)
- (b) Externalities may at times be considered as beneficial. List **two** examples when this may be so. (6 marks)
- (c) With the use of **two** examples explain how *market failure* may come about. (6 marks)
- (d) List **two** ways how problems related to social costs may be reduced. (6 marks)

## **SECTION B: MACRO ECONOMICIS**

### **Question 5**

*The circular flow of income is a simple way of showing how output, income and expenditure circulate and change in an economy over time. It is also affected by injections and leakages.*

- (a) Draw a simple flow diagram to show how output, income and expenditure circulate in an economy. (5 marks)
- (b) Distinguish between *injections* and *leakages*. (5 marks)
- (c) For each of the following statements, indicate whether each is an injection or a leakage:
- (i) An increase in government subsidies
  - (ii) An increase in income tax
  - (iii) An increase in firms' investment
  - (iv) A decrease in government expenditure
  - (v) A decrease in imports
  - (vi) An increase in personal savings. (6 marks)

- (d) Explain how the following would affect the circular flow of income:
- (i) An increase in income tax
  - (ii) A decrease in imports
  - (iii) An increase in firms' investment. (9 marks)

### **Question 6**

- (a) With the use of examples, explain what is meant by *exports* and *imports* on the Balance of Payments. (6 marks)
- (b) Distinguish between the *current* and *capital* account of the Balance of Payments. (6 marks)
- (c) What gives rise to a trade deficit on the Balance of Payments? (4 marks)
- (d) Discuss briefly **three** ways to correct a Balance of Payments trade deficit. (9 marks)

### **Question 7**

- (a) What is meant by the term *money*? (3 marks)
- (b) Explain the **four** functions of money. (8 marks)
- (c) Discuss **three** characteristics of good money. (6 marks)
- (d) Outline and explain **four** main functions of the Central Bank of Malta. (8 marks)

### **Question 8**

- (a) The interest rate is the main instrument of monetary policy and can be used to affect government economic objectives. Discuss briefly **one** way in which a *fall* in the rate of interest might affect each of the following groups:
- (i) Savers
  - (ii) Home buyers
  - (iii) Firms. (9 marks)
- (b) One of the key objectives of a government is to reduce unemployment. Outline briefly **two** other objectives. (4 marks)
- (c) Discuss **two** supply-side economic policies which can be used to reduce unemployment. (6 marks)
- (d) In light of Malta's ageing population, briefly examine **two** challenges that are faced by Malta's economy. (6 marks)