

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

SECONDARY EDUCATION CERTIFICATE LEVEL

MAY 2016 SESSION

SUBJECT:	Economics
PAPER NUMBER:	I
DATE:	9 th May 2016
TIME:	9:00 a.m. to 11:05 a.m.

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

SECTION A: MICRO ECONOMICS

Question 1

The following schedule relates to the demand and supply of a product.

Price	Quantity Demanded <i>per week</i>	Quantity Supplied <i>per week</i>
€ 6	8	36
€ 5	11	32
€ 4	15	27
€ 3	20	20
€ 2	26	13
€ 1	36	5

- (a) From the demand and supply schedules for the product shown above, what is the *equilibrium price* and *equilibrium quantity*? (2 marks)
- (b) Plot the demand and supply curve on a graph paper. Mark clearly the *equilibrium price* and *quantity*. (8 marks)
- (c) If the price is fixed at a *minimum price* of €4 per unit, will the market remain in equilibrium? Use the plotted graph in (b) to explain your answer. (5 marks)
- (d) Calculate the *price elasticity of demand* when price falls from €5 to €4. Is it elastic or inelastic? Briefly explain why knowledge of elasticity is important to the producer. (6 marks)
- (e) What is *price elasticity of supply*? Calculate the price elasticity of supply as price falls from €5 to €4. (4 marks)

Question 2**Sparkasse Bank Malta expands its operations.**

Sparkasse Bank Malta plc has increased its office space in order to expand facilities and meeting rooms and cater for additional staff.

“2015 was yet another successful year for us at Sparkasse Bank Malta”, said managing director Paul Mifsud. “Year on year, we have experienced growth across all our business lines. This has encouraged us to make the necessary additional investment locally. This year we invested in upgrading our IT infrastructure and increasing our workforce. In 2016 we intend to launch a suite of innovative financial services.”

Source: Times of Malta, January 14th, 2015

- Briefly explain **two** advantages that may be gained by ‘Sparkasse Bank Malta plc’ by investing in the expansion of its facilities locally and increasing its *scale* of operations. (4 marks)
- To embark on this internal growth, ‘Sparkasse Bank Malta plc’ employs *factors of production*. What are *factors of production*? List **two** factors of production, and explain their importance to a business. (6 marks)
- Sparkasse Bank could have resorted to *external growth* or *integration*. Using examples, explain **two** ways in which this could have been done. (6 marks)
- Distinguish between *a merger* and *a take-over*. (4 marks)
- Indicate the type of integration involved, if ‘Sparkasse Bank Malta plc’ decides to merge with a cosmetics company. Discuss **one** advantage and **one** disadvantage to be gained by such a decision. (5 marks)

Question 3

Tyrone is the owner of a small manufacturing firm employing five workers for a five day working week during which it produces 250 articles. Tyrone’s business has, during the last months, been supported in various ways by the Malta Enterprise.

- List **two** ways by which Malta Enterprise supports local firms. (2 marks)
- Evaluate the importance of small firms such as Tyrone’s business. (2 marks)
- Discuss **two** reasons why, despite fierce competition from large businesses, small firms still continue to exist. (2 marks)
- During the week, Tyrone’s firm incurs the following costs:

Input Costs per week	
Office Salaries	€300
Wages	€1,750
Raw Materials	€800
Electricity	€300
Interest on bank loan	€200
Motor vehicles insurance	€100

Calculate **each** of the following: (i) fixed costs, (ii) variable costs (iii) total costs, (iv) average costs, (v) average daily output per worker. (10 marks)

- Define *marginal cost* and explain its relevance to Tyrone’s manufacturing concern. (6 marks)
 - If the firm produces 251 articles, total costs increase to €3,475. How much is the marginal cost? (3 marks)

SECTION B: MACRO ECONOMICS

Question 4

The table below provides information on the Maltese Government’s financial position for the years 2012, 2013 and 2014.

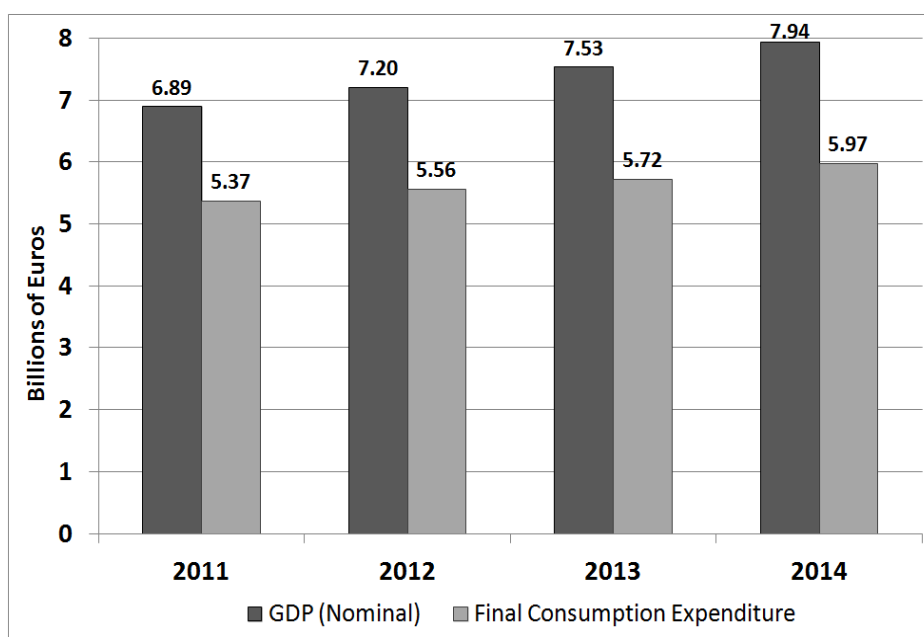
Government Finance Data	2012	2013	2014
	EUR 000s		
Recurrent Revenue	2,715,732	2,992,104	3,387,209
Total Expenditure, of which:	3,078,008	3,255,264	3,523,495
Recurrent Expenditure	2,488,423	2,632,649	2,857,050
Interest	225,808	227,905	231,096
Capital Expenditure	363,777	394,710	435,349

Source: National Statistics Office, 2015

- (a) List **four** different sources of revenue for the government. (4 marks)
- (b) Explain why *government revenue* would be expected to increase and *government expenditure* to fall when a country’s National Income or GDP increases. (6 marks)
- (c) Explain the difference between *recurrent expenditure* and *capital expenditure*. List **two** reasons why governments spend money. (6 marks)
- (d) Was the Maltese Government running a *surplus* or a *deficit* for each of the three recorded years? Show your workings. (3 marks)
- (e) If the government is running a deficit in its budget list **two** ways how it may finance this deficit. (6 marks)

Question 5

The graph below highlights two important sets of data sourced from the National Accounts of Malta for the years 2011 to 2014: GDP and Final Consumption Expenditure. All figures are in billions of euro and measured in nominal terms.

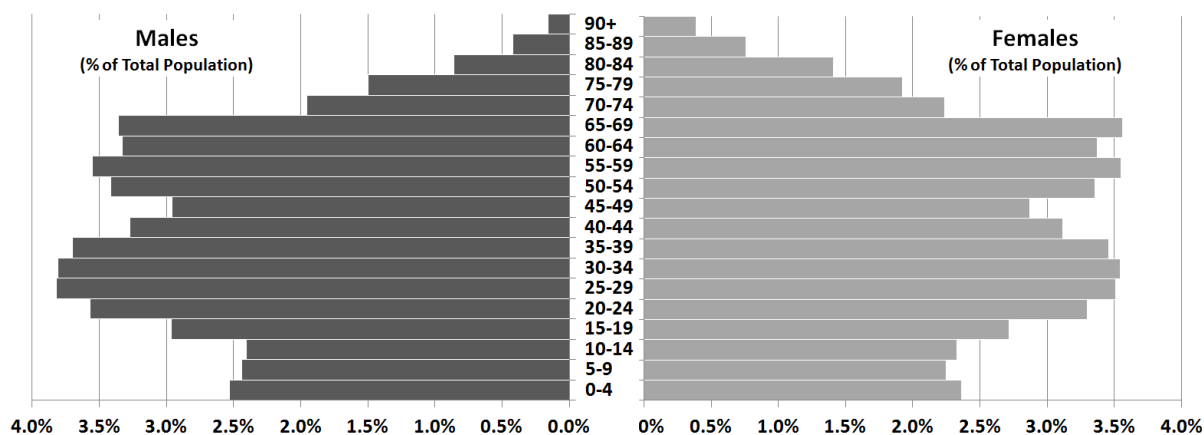


Data Source: Ministry of Finance, Malta, January 2015

- (a) What are the *National Accounts* and what are they used for? (4 marks)
- (b) Distinguish between GDP in *nominal* or *money* terms and GDP in *real* terms. (4 marks)
- (c) List **three** methods by which National Income is measured. Briefly explain why all the three methods should provide *identical* answers. (6 marks)
- (d) *Final Consumption Expenditure* represents the total expenditure carried out by households, the government and ‘Non-Profit Institutions Serving Households’ (NPISHs) and makes up a very important part of what economists call *Aggregate Demand*. What significant aspects do you note about the relationship between Nominal GDP and Final Consumption Expenditure as highlighted in the graph? (6 marks)
- (e) What is meant by the statement that “*an economy is said to be in equilibrium when aggregate demand equals aggregate supply*”? (5 marks)

Question 6

The total population of Malta at the end of 2014 stood at 429,344, up by 0.9 per cent when compared to 2013. The population increase was mainly due to net migration (immigration less emigration). In the total population, persons under 18 years of age made up 17.6 per cent, and persons aged 65 and over made up 18.5 per cent. Of these, 2,332 persons - 1,661 females and 671 males - were over 89 years. The Maltese population accounted for 93.6 per cent of the total population.



Data Source: National Statistics Office, 2015

- (a) With reference to Malta, list and briefly explain **two** ways how a country’s population may increase or decrease. (4 marks)
- (b) The bar graph above is known as a *population pyramid* and it represents the *age-sex distribution* of the total population of the Maltese islands at the end of 2014. What information about the Maltese population can be gathered from this data? (6 marks)
- (c) From the shape of this population pyramid would you consider Malta to be a *developed* or a *less developed* country? Give a reason for your answer. (4 marks)
- (d) Explain how changes in Malta’s *standard of living* and *economic welfare* are affecting Malta’s demographic situation. (6 marks)
- (e) With a land area of 315.6 km², Malta’s *population density* is one of the highest in the world. Given the total size of its population, calculate Malta’s population density per km². What is the significance of this figure when assessing the use of the island’s scarce resources? (5 marks)

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SECONDARY EDUCATION CERTIFICATE LEVEL

MAY 2016 SESSION

SUBJECT:	Economics
PAPER NUMBER:	IIA
DATE:	10 th May 2016
TIME:	9:00 a.m. to 11:05 a.m.

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

SECTION A: MICRO ECONOMICS

Question 1

The public sector should lead by example on disability employment – MEA

The Malta Employers' Association has welcomed the intention of the government to get as many willing persons with a disability into productive employment in companies employing more than 50 people, as stated by the Prime Minister. The MEA said it has always supported efforts by its members to adhere to the two per cent disabled employment quota required by legislation. The MEA said nothing stood in the way of the government to insist on a full enforcement of these obligations on employers, including the public sector.

Source: Times of Malta, December 27th, 2015.

- (a) What is the role of *trade unions* and *employers' associations* in the labour market? (6 marks)
- (b) Industrial relations are regulated by the *Employment and Industrial Relations Act* (EIRA). What is the function of this Act? (4 marks)
- (c) Explain why *wage differentials* occur in the labour market. (3 marks)
- (d) Discuss **two** factors affecting the demand for labour and **two** factors affecting the supply of labour. (8 marks)
- (e) Explain the difference between the **private sector** and the **public sector** of an economy. (4 marks)

Question 2

Two local partners have recently opened up their own printing press. They have employed specialisation of labour in the production process.

- (a) Define *specialisation*. (2 marks)
- (b) Discuss **two** advantages and **two** disadvantages of specialisation. (8 marks)
- (c) Describe **two** features of *mass production*. (2 marks)
- (d) The two partners want to add more workers to the existing amount of labour and capital. They seem not to be aware of the *law of diminishing returns*. Discuss how this law would affect the firm if capital is assumed to be a fixed input. (5 marks)
- (e) The partnership wants to expand the business. Distinguish between **two** internal and **two** external sources of finance. (8 marks)

Question 3

An entrepreneur is setting up a retail outlet selling smart-phones. There are no other such retail outlets in the locality.

- (a) State the type of *market structure* that the firm would be operating in. Describe **two** characteristics of this type of market structure. (5 marks)
- (b) List **two** advantages that the firm would gain by operating in such a market. (4 marks)
- (c) Identify **three** disadvantages that consumers and society would face in such a market. (6 marks)
- (d) List **three** reasons why consumers would benefit by more competition. (6 marks)
- (e) As other firms eventually enter the market, supplying other brands of smart-phones, the market becomes more competitive. Identify **two** barriers that the firm would likely adopt in order to keep out this competition. (4 marks)

Question 4

You and your friend Argus are about to employ your entrepreneurial skills by opening up your own business selling tablets. You are considering all the issues at hand.

- (a) List **two** factors that would influence your decision where to *locate* your business. (4 marks)
- (b) What **two** advantages would you and Argus gain by adopting a *partnership* setup rather than that of a *sole-trader*? (4 marks)
- (c) Argus' and your objective is to make *profit*. What is profit? And, why is it an important objective for a business? (5 marks)
- (d) Discuss the importance of **price** in determining the demand for and supply of electronic tablets. Use a suitable diagram to explain your answer. (6 marks)
- (e) Assuming that consumers in the market for electronic tablets experience an increase in their income level. With the use of the same diagram used in answering question (d) above, explain what effect this increase in income would have on the market for tablets. (6 marks)

SECTION B: MACRO ECONOMICS

Question 5

- (a) International trade is one of the main pillars of the Maltese economy. List **three** reasons why international trade is important for Malta. (6 marks)
- (b) Explain why imports are considered as a *leakage* or *withdrawal* from the circular flow of income, while exports are considered an *injection*. (4 marks)
- (c) Unlike most other countries, Malta is too small to enjoy any significant *absolute advantage* in the production of any type of good or service. Yet, it is to its benefit to specialise and trade in sectors in which it enjoys a *comparative advantage* such as tourism or banking and finance.
 - (i) Briefly explain the difference between *absolute* and *comparative* advantages. (4 marks)
 - (ii) Why does specialisation in tourism help Malta's economy? (4 marks)
- (d) List the **three** components of the Balance of Payments Account and explain **two** measures by which a government may correct a Balance of Payments deficit. (7 marks)

Question 6

- (a) Money is best defined as *anything that is considered as an acceptable medium of exchange by all users in an economy*. Why is acceptability an important characteristic of ‘good money’? (4 marks)
- (b) Briefly explain the importance of **three** other characteristic qualities of ‘good money’. (6 marks)
- (c) Like any other commodity, money has a price. It is called *interest*. Discuss the role of interest rates in a market economy. (5 marks)
- (d) The Central Bank is a very important monetary institution. List and explain **three** functions of the *European Central Bank* (ECB) of which the *Central Bank of Malta* is a member. (6 marks)
- (e) List and explain **two** roles of the *Malta Financial Services Authority* (MFSA). (4 marks)

Question 7

- (a) What is *inflation*? Why is it seen as a cause of concern, particularly by people who depend on a fixed income? (4 marks)
- (b) What is meant by the statement: “*inflation is simply the result of too much money chasing too few goods*”? Why is this considered as a major cause of inflation? (5 marks)
- (c) When would inflation be considered as beneficial? (4 marks)
- (d) Explain what is meant by an inflationary *wage-price spiral*. Why would this be a major cause of concern, particularly to a small island economy such as Malta, an economy that is highly dependent on exports for its income? (6 marks)
- (e) Discuss **two** different methods that may be used by governments and by monetary authorities to control inflation. (6 marks)

Question 8

- (a) When originally setup in 1958, the *European Economic Community* (EEC) was better known as *The Common Market*. This was because its primary objective at the time was the creation of a customs union. What is a *customs union*? What distinguishes it from a *Free Trade Area*? (4 marks)
- (b) List **two** other objectives behind the creation of the European Union. (4 marks)
- (c) The signing of the Maastricht Treaty in 1992 was the next step towards a greater European plan of *Economic and Monetary* integration or EMU. List **three** conditions that EMU members are required to fulfil. (6 marks)
- (d) List **two** advantages and **two** disadvantages associated with Malta’s entry into what is called the ‘*Euro-zone*’ in 2008. (4 marks)
- (e) Malta has been a member of the European Union since 2004. Briefly discuss the major benefits **and /or** drawbacks incurred from the decision to join the EU. (7 marks)

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MAY 2016 SESSION

SUBJECT:	Economics
PAPER NUMBER:	IIB
DATE:	10 th May 2016
TIME:	9:00 a.m. to 11:05 a.m.

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SECTION A: MICRO ECONOMICS

Question 1

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Source: Times of Malta, December 27th, 2015.

- (a) List and describe **three** aims of *trade unions*. (6 marks)
- (b) What are the roles of an *employers' association* and of the *ETC*? (4 marks)
- (c) State **one** reason why wages differ in the labour market. (3 marks)
- (d) List and explain **two** factors affecting the demand for labour. (6 marks)
- (e) List and explain **two** factors affecting the supply of labour. (6 marks)

Question 2

Two friends decided to open up in business together and run their own printing press. They have employed specialisation of labour in the production process.

- (a) What does specialisation mean? (2 marks)
- (b) List **two** advantages and **two** disadvantages of specialisation. (8 marks)
- (c) Describe **two** features of mass production. (2 marks)
- (d) How would the firm be affected if the two partners decide to add more workers to the existing amount of labour and capital? (5 marks)
- (e) List **two** internal and **two** external sources of finance. (8 marks)

Question 3

You are interested in setting up a retail outlet selling smart-phones. There are no other such retail outlets in your locality – yours would be the only one.

- (a) What is the type of *market structure* in which you would be operating in, called? List **two** characteristics of this type of market structure. (5 marks)
- (b) Explain how the firm would benefit from operating in such a market. (4 marks)
- (c) Identify **three** disadvantages that consumers would face in such a market. (6 marks)
- (d) As other firms eventually enter the market supplying other brands of smart-phones, the market becomes more competitive. Explain what firms that operate in a market structure such as yours would do in order to protect themselves from competition. (4 marks)
- (e) Give **three** reasons why consumers would benefit from more competition. (6 marks)

Question 4

You and your friend Argus are about to employ your entrepreneurial skills by opening up your own business selling tablets. You are considering all the issues at hand.

- (a) List **two** factors that influence your decision where to *locate* your business. (4 marks)
- (b) What would the set-up of this newly-created firm be called? Mention an advantage of this type of business organisation. (4 marks)
- (c) You and Argus' objective is to make profit. What is *profit*? Why should a business person expect to earn profit? (4 marks)
- (d) List **two** factors that influence the demand for tablets and **two** factors that influence the supply of tablets. (8 marks)
- (e) Describe what happens to the *equilibrium price* and *quantity* of tablets when consumers experience an increase in their income level. (5 marks)

SECTION B: MACRO ECONOMICIS

Question 5

- (a) Name **two** goods that Malta can produce for itself but instead chooses to import them. Explain why this is done. (5 marks)
- (b) What is meant by the term *Balance of Payments*? What do the *current account* and *capital account* within the Balance of Payments represent? (6 marks)
- (c) Briefly explain the difference between *visible* and *invisible* trade. Why is Malta's *visible trade gap* always in deficit? (4 marks)
- (d) The Maltese economy, is highly specialised in tourism. This sector also provides a very significant contribution to the island's current account surplus in its Balance of Payments. List **three** reasons why Malta benefits from specialising and trading in this sector. (6 marks)
- (e) How would a fall in the exchange rate value of the Euro in terms of the British Pound Sterling affect Malta's Balance of Payments? (4 marks)

Question 6

- (a) *Barter* can be used as a means of exchange and money is not really necessary. What is barter? Can it really replace the use of money? List **three** problems that are associated with the use of a barter system. (8 marks)
- (b) Cash is one of the principal methods of payment when using money. List **two** advantages and **two** disadvantages in the use of cash. (4 marks)
- (c) Unlike cash, bank deposits are not *legal tender*, yet they make up the bulk of the money supply.
 - (i) What does the term *legal tender* mean? (2 marks)
 - (ii) Why are bank deposits, such as *current accounts* and *term* or *fixed deposits* also considered as money? (3 marks)
- (d) The *European Central Bank* (ECB) is responsible for controlling the money supply and the setting of interest rates. Explain how a fall in interest rates would affect the economy (4 marks)
- (e) List **two** functions of the *Malta Financial Services Authority* (MFSA). (4 marks)

Question 7

- (a) It is said that inflation *erodes the purchasing power of money*. What does the term '*purchasing power of money*' mean and why does inflation cause its *erosion*? (5 marks)
- (b) How are the following groups of people affected by inflation?
 - (i) people on a fixed income,
 - (ii) creditors or people who lend money to others,
 - (iii) debtors or people who owe money to others,
 - (iv) manufacturers. (8 marks)
- (c) Why may an increase in *demand* be considered as a cause of inflation? What may a government do to control this type of inflation? (7 marks)
- (d) Malta often suffers from what is called *imported inflation*. What does this term mean? Why is Malta particularly vulnerable to imported inflation? (5 marks)

Question 8

- (a) The European Union (EU) was originally set up as a *customs union*. What is a customs union and what is its main objective? (6 marks)
- (b) A *Common Agricultural Policy* (CAP) is another important objective of the European Union. This policy has been strongly criticised because of the surplus food that has resulted from the implementation of this policy. Briefly explain how this excess supply of food has been brought about in the European Union. (5 marks)
- (c) In 1992 the Maastricht Treaty was drawn up in order to create an *Economic and Monetary Union* (EMU) between European Union member states. Malta joined in 2008, four years after becoming an EU member state.
 - (i) What are the **two** main features of EMU? (4 marks)
 - (ii) List **one** advantage and **one** disadvantage for Malta in being within the Euro zone. (4 marks)
- (d) List **two** conditions established by the Maastricht Treaty in order to ensure economic and monetary stability within the Euro zone. (6 marks)