

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

SECONDARY EDUCATION CERTIFICATE LEVEL

MAY 2017 SESSION

SUBJECT:	Economics
PAPER NUMBER:	I
DATE:	27 th April 2017
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

1. The following tables show possible combinations of books and cars that could be produced in Country X.

Table 1

Combinations	Books	Cars
A	40	0
B	35	15
C	25	25
D	15	30
E	0	35

Table 2

Combinations	Books	Cars
F	50	0
G	45	15
H	35	30
I	20	40
J	0	45

- (a) What information does a 'Production Possibility Curve' (PPC) show? (2)
- (b) Plot on graph paper, a PPC using the data in Table 1. (4)
- (c) Explain the term 'opportunity cost' and illustrate this on the PPC. (4)
- (d) Give an example of how opportunity cost can be applied to each of the following:
- i. An individual;
 - ii. A firm;
 - iii. The government. (6)
- (e) Assuming a new PPC for country X, using the data in Table 2, plot the new PPC on the same graph. (3)
- (f) What observations can be made about the change between the two PPCs? List **TWO** reasons that may explain what could bring about such a change. (6)

(Total: 25 marks)

Please turn the page.

2. A small scale farmer specialises in the production of strawberries. He would like to increase his current level of output in order to satisfy an increase in demand for his product. The five tumoli plot of land he owns is not fully under cultivation or in use, and he hopes that by employing more labour he would be able to increase output. He cannot afford to increase either the size of his plot of land nor his capital assets. The table below shows the total output he could produce with his current fixed land and capital resources, along with different levels of labour. He currently employs five workers.

Number of workers	Total Output (000s of kgs)
0	0
1	2
2	5
3	9
4	12
5	12
6	10

- (a) Using **TWO** separate graphs, plot:
 - i. the total output of strawberries,
 - ii. the marginal product and the average product of strawberries. (7)
 - (b) Define ‘short run’ and ‘long run’ in production. (4)
 - (c) From the data provided, at what point does the law of diminishing marginal returns set in? (4)
 - (d) Would the farmer ever consider employing the sixth worker, given the current land and capital resources at his disposal? Explain your answer. (4)
 - (e) Why may long term investment in more land, labour and capital benefit the farmer? (6)
- (Total: 25 marks)**

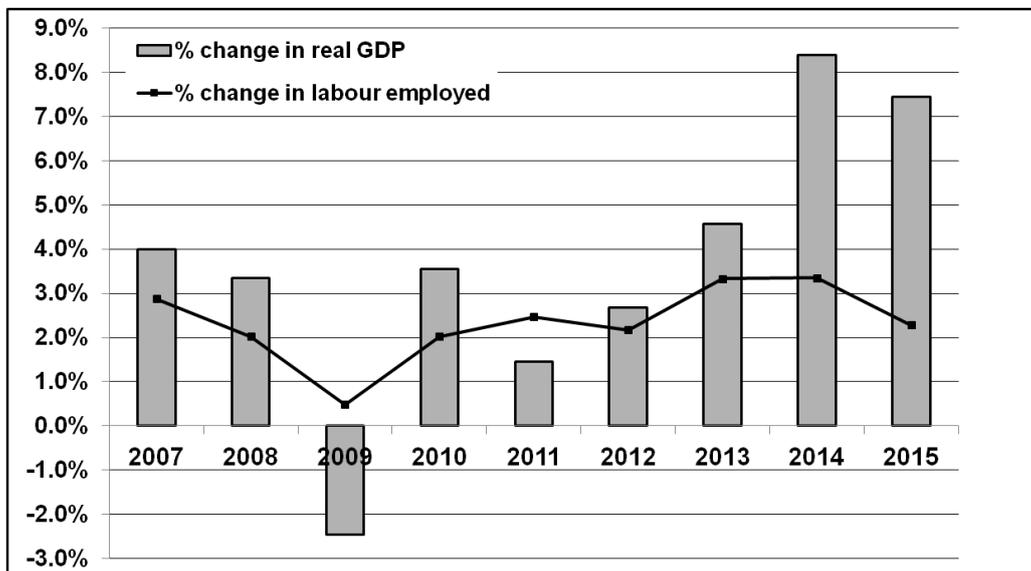
3. In its business forecast for 2017, the International Air Transport Association (IATA) states that European airlines are expected to see their profits fall for the first time in six years, after peaking in 2016 at \$7.5 billion. On the other hand, growth in passenger demand is forecast at 4.0%. Europe is subject to intense competition and hampered by high levels of costs, particularly rising oil prices and labour costs, tough government regulations and high taxes.

Source: International Air Transport Association, 8th December 2016

- (a) Define ‘profits’ and explain how they are calculated. (4)
 - (b) List **THREE** factors that may determine the expected ‘4.0% growth in passenger demand’ for airline tickets. (6)
 - (c) Using a suitable diagram, explain how both the expected growth in demand along with the even higher expected growth in the supply of airline seats, would affect the market for airline tickets. (6)
 - (d) Define ‘cross elasticity’. Why would you expect the cross elasticity of demand for tickets provided by individual European airlines to be positive and greater than 1? (5)
 - (e) Explain how the current high levels of costs, particularly rising fuel and labour costs, as well as higher taxes may affect the European airline industry in future? (4)
- (Total: 25 marks)**

SECTION B: MACRO ECONOMICS

4. The graph below shows the growth of Malta’s **real GDP** (bar graph) and the changes in Malta’s **employment rate** (line graph) from 2007 to 2015.



Source: National Statistics Office, 2016

- (a) Define ‘real GDP’. (4)
- (b) Briefly explain **ONE** method by which GDP is measured. (7)
- (c) Explain why GDP growth and changes in the level of labour employment are related. (4)
- (d) In the year 2009, real GDP fell by 2.5% when compared to 2008. In 2010 the economy recovered and a growth rate of 3.5% was recorded. List **TWO** factors that may bring about a contraction in GDP and **TWO** factors that may bring about a recovery in GDP. (4)
- (e) Explain **TWO** measures that the government may take to bring about long term economic growth for Malta. (6)

(Total: 25 marks)

Please turn the page.

5. In November last year, the number of persons registering for work stood at 3,021 compared to 4,760 for the corresponding month of 2015. Data provided by Jobsplus for November indicate an overall decrease in registered unemployment. The registered unemployment rate in June 2016 stood at 1.9 per cent of the labour supply, and varied from 2.2 per cent among men to 1.4 per cent among women.

Source: adapted from NSO News Release of 6th Jan 2017

- (a) Define unemployment and briefly explain **THREE** types of unemployment. (8)
- (b) What is meant by the term 'labour supply'? (3)
- (c) The text states that the number of people registering for work has decreased. Does a decrease in 'registered unemployment' necessarily mean that employment has increased? Explain your answer. (4)
- (d) Jobsplus (previously known as the Employment and Training Corporation (ETC)) is the organisation whose aim is to improve accessibility in the labour market. List **TWO** services provided by Jobsplus to improve access to the labour market. (6)
- (e) Describe **TWO** government policies to reduce unemployment. (4)

(Total: 25 marks)

6. The pound has strengthened after Prime Minister Theresa May outlined her plans to take the UK out of the EU. Sterling rose sharply when she started speaking and continued to surge, reaching 2.6% against the dollar by late afternoon. In her speech, Mrs May said that the UK would leave the EU's single market, but stressed that it would seek new international trade opportunities and be open to global trade.

Source: BBC 17th Jan 2017

- (a) What is an 'exchange rate'? (3)
- (b) What is the difference between a 'Fixed' and a 'Free Floating' exchange rate? (6)
- (c) What do you understand by the statement that: 'The pound has strengthened'? (4)
- (d) Using a diagram, explain a depreciation of the Euro (€) against the US dollar (\$). (6)
- (e) List **THREE** factors that may determine changes in the value of an exchange rate. (6)

(Total: 25 marks)

MATRICULATION AND SECONDARY EDUCATION CERTIFICATE EXAMINATIONS BOARD
UNIVERSITY OF MALTA, MSIDA**SECONDARY EDUCATION CERTIFICATE LEVEL****MAY 2017 SESSION**

SUBJECT:	Economics
PAPER NUMBER:	IIA
DATE:	28 th April 2017
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

1. Most of the issues that often make the headlines in local and international media are related to economic problems.

- (a) With the use of examples, explain why we study economics. (6)
- (b) With the use of a suitable diagram, explain how the price mechanism works. (7)
- (c) Explain **TWO** advantages and **ONE** disadvantage of a free market system. (6)
- (d) What is the role of the government in a mixed economy? (6)

(Total: 25 marks)

2. When Henry Ford designed the first moving assembly line in 1913, and produced the first mass produced car, the Ford Model T, he had revolutionised the manufacturing process. This process was based on what are known as the **3Ss**: ‘Specialisation, Standardisation and Simplification’

- (a) What do the terms ‘Specialisation’, ‘Standardisation’ and ‘Simplification’ mean and why are they so important in mass production? (6)
- (b) How have firms, such as Ford Motor Corporation, and consumers benefited from mass production? (6)
- (c) List **THREE** advantages and **THREE** disadvantages of division of labour. (6)
- (d) Specialisation also means that individual countries can produce certain goods that they are best at producing and then exchange them with other countries. With reference to Malta, explain why specialisation in certain industries such as iGaming and tourism is of benefit. (7)

(Total: 25 marks)

Please turn the page.

3. Perfect competition and monopoly are two extreme forms of market structures.

- (a) What are the assumptions underlying a perfectly competitive market? (5)
- (b) How does 'monopoly' differ from 'perfect competition'? (6)
- (c) 'Perfect competition is usually considered better than a monopoly'. What are the benefits that perfect competition would bring to society? (4)
- (d) Why are monopolies often seen as working against the public interest? (6)
- (e) Do monopolies provide any benefits to society? (4)

(Total: 25 marks)

4. The construction industry is one of the most important sectors of our economy. The public sector is carrying out large infrastructural projects ranging from the Kappara Junction and the construction of new schools to the extension of State hospitals. The private sector is also investing heavily in various projects, including the new Delimara power station, the high-end residential developments such as Portomaso, Tigne Point and Pender Gardens, and various new hotels and hotel extensions.

Source: Adapted from the Times of Malta June, 2016

- (a) Why is the construction industry an 'important sector' for the Maltese economy? (5)
- (b) In spite of the benefits that the Maltese economy may gain from the construction industry, this industry is often associated with external costs – costs that society has to bear. Explain why economists consider external costs as a sign of market failure. (6)
- (c) List any **TWO** positive and any **TWO** negative externalities that may arise from any project mentioned in the passage above. (8)
- (d) Explain **TWO** ways that may reduce the negative impacts brought about by the construction industry in Malta. (6)

(Total: 25 marks)

SECTION B: MACRO ECONOMICS

5. Every year, the Minister of Finance lays out the government budget, that is the government's expenditure and revenue estimates for the following year.

- (a) Briefly explain **TWO** reasons why governments spend money. (6)
- (b) Give **THREE** reasons that explain why governments impose taxes. (6)
- (c) Explain with examples, direct and indirect taxation. (6)
- (d) What are 'progressive', 'regressive' and 'proportional' taxes, and why is progressive taxation usually the preferred type of taxation system? (7)

(Total: 25 marks)

6. In 2015 the Maltese Central Bank's share of currency issued in the Euro System was €893.1 million or 5.7% of the €15,775.4 million of total bank deposits, also known as intermediate money or M2.

Source: Central Bank of Malta

- (a) What is 'money'? (3)
- (b) Why are bank deposits, along with cash, considered as money? (4)
- (c) Briefly explain two factors that determine the demand for money. (6)
- (d) The European Central Bank (ECB) is responsible for exercising monetary policy within the Euro zone. What is monetary policy and why are interest rates an important tool in monetary policy? (7)
- (e) The Euro-zone was set up in 1992 by the Maastricht Treaty, and Malta joined it in 2008. What is the Euro-zone, and what are its main objectives? (5)

(Total: 25 marks)

7. In the year 2015, Malta had a positive €484.9 million credit balance in its external trade. This data is gathered from the current account, as presented in the balance of payments.

Data Source: Central Bank of Malta, (External Statistics).

- (a) What is a 'current account' and what does a credit balance mean? (3)
- (b) Explain what is meant by:
 - i. the visible balance in the current account.
 - ii. the invisible balance in the current account.
 - iii. the trade balance in the current account. (3)
- (c) Why is it typical for Malta to have a debit balance in its visible balance of trade? (3)
- (d) Apart from the current account, what other information does the balance of payments provide? (4)
- (e) Give **THREE** reasons why countries trade with each other, highlighting the benefits of international trade. (6)
- (f) List **TWO** examples of trade barriers and explain **TWO** reasons why countries use trade barriers as a form of protectionism. (6)

(Total: 25 marks)

8. In 2015, Malta's economy grew by 7.4% as compared to 2014.

- (a) What is meant by the term 'economic growth' and how is it measured? (6)
- (b) What factors may bring about economic growth in Malta? (6)
- (c) Why is economic growth associated with improvements in peoples' standard of living? (6)
- (d) An increase in a country's economic growth does not necessarily mean that its population is better off. By means of examples, explain why this is so. (7)

(Total: 25 marks)

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

SECONDARY EDUCATION CERTIFICATE LEVEL

MAY 2017 SESSION

SUBJECT:	Economics
PAPER NUMBER:	IIB
DATE:	28 th April 2017
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

1. It is said that ‘economics is the study of scarcity and choice’.

- (a) Define the term ‘scarcity’ and with the use of **TWO** examples explain what is meant by ‘economic goods’. (6)
- (b) With the use of a suitable diagram, explain how the price mechanism helps consumers and suppliers to reach market equilibrium. (7)
- (c) What are ‘public’ and ‘merit’ goods and why are these usually provided by the government? (6)
- (d) How may government intervene in the market in order to:
 - i. increase consumption of merit goods?
 - ii. reduce consumption of demerit goods? (6)

(Total: 25 marks)

2. Henry Ford designed the first moving assembly line in 1913, and produced the first mass produced car, the Ford Model T. This manufacturing process revolutionised the manufacturing process, not only of cars but of most manufactured goods.

- (a) Distinguish between ‘specialisation by product’ and ‘specialisation by process’. (6)
- (b) How has division of labour, as practised in the mass production of many products such as cars, benefited both firms and consumers? (6)
- (c) List **TWO** advantages and **TWO** disadvantages of division of labour as experienced by employees. (8)
- (d) With reference to Malta, explain why specialisation in certain industries such as iGaming or tourism is of benefit to the Maltese economy. (5)

(Total: 25 marks)

Please turn the page.

3. Perfect competition and monopoly are two extreme market structures.

- (a) What are the assumptions underlying a perfectly competitive market? (5)
- (b) List **THREE** advantages associated with a perfectly competitive market structure. (6)
- (c) What is a monopoly? What disadvantages are usually associated with monopolies? (8)
- (d) List **TWO** benefits that society may gain through the existence of a monopoly. (6)

(Total: 25 marks)

4. The construction industry is one of the most important sectors of our economy. The public sector is carrying out large infrastructural projects ranging from the Kappara Junction and the construction of new schools to the extension of State hospitals. The private sector is also investing heavily in various projects, including the new Delimara power station, the high-end residential developments such as Portomaso, Tigne Point and Pender Gardens, and various new hotels and hotel extensions.

Source: Times of Malta June, 2016

- (a) What is meant by the term 'industry'? (3)
- (b) Under which of the following categories does the construction industry fall: Primary sector, Secondary sector or Tertiary sector? (2)
- (c) What are positive and negative externalities? (6)
- (d) Projects such as those mentioned in the text above, may bring about both positive and negative externalities. List **FOUR** examples of any externalities that may arise out of the construction industry. (8)
- (e) List **TWO** ways how the negative impacts brought about by the construction industry may be reduced. (6)

(Total: 25 marks)

SECTION B: MACRO ECONOMICS

5. Every year, the Minister of Finance lays out the government budget, that is government expenditure and revenue estimates for the following year.

- (a) Explain **ONE** reason why the government spends money. (5)
- (b) Explain what is meant by a 'deficit' and by a 'surplus' in the Government's budget. (6)
- (c) Give **THREE** reasons why governments impose taxes. (6)
- (d) What are 'direct' and 'indirect' taxes? Give **ONE** example of each. (8)

(Total: 25 marks)

6. Money, like any other commodity in a free market, has a price. This is known as the rate of interest.

- (a) Why is the rate of interest considered as the 'price of money'? (5)
 - (b) List **THREE** functions of money. (6)
 - (c) Briefly explain **TWO** reasons why low interest rates should benefit the economy. (6)
 - (d) Describe the basic roles of: (i) commercial banks and (ii) central banks, in an economy. (8)
- (Total: 25 marks)**

7. In the year 2015, Malta had a positive €484.9 million credit balance in its external trade. This data is gathered from the current account, as presented in the balance of payments.

Data Source: Central bank of Malta, (External Statistics, 2016).

- (a) What is a 'current account'? (3)
 - (b) What is meant by:
 - i. a visible trade balance in the current account?
 - ii. an invisible trade balance in the current account? (4)
 - (c) Malta typically enjoys a surplus in its invisible trade but a deficit in its visible trade. Why is this so? (6)
 - (d) Explain **THREE** benefits that Malta gains from international trade. (6)
 - (e) List **TWO** examples of trade barriers that countries may use as a form of protectionism and list **ONE** reason why such barriers may be set up. (6)
- (Total: 25 marks)**

8. In 2015, Malta's economy grew by 7.4% as compared to 2014.

- (a) What is meant by the term 'economic growth'? (5)
 - (b) Explain **TWO** ways how 'economic growth' may be achieved. (6)
 - (c) Explain **TWO** benefits that a country's population gains from economic growth. (8)
 - (d) Economic growth comes at a cost. List **TWO** costs associated with economic growth. (6)
- (Total: 25 marks)**