



SUBJECT: **Economics**
 PAPER NUMBER: I
 DATE: 26th April 2018
 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 table below shows the demand for and supply of school bags.

Price (€)	Quantity Demanded (in units)	Quantity Supplied (in units)
20	100	10
30	90	30
40	80	50
50	70	70
60	60	90
70	50	110
80	40	130
90	30	150

- (a) On the graph paper provided, plot the 'demand' and 'supply' curves. (5)
- (b) What is the equilibrium price and what is the equilibrium quantity? Show these on your graph. (5)
- (c) List **TWO** factors that may shift the demand curve to the right and **ONE** factor that causes a movement along the demand curve. (5)
- (d) On your plotted diagram show and explain what happens if the government imposes a fixed price of €40. Give **ONE** reason why the government may decide to set fixed prices. (5)
- (e) What would happen to the original equilibrium price and quantity if the costs of production were to increase by €10 per unit? (5)

(Total: 25 marks)

Please turn the page.

2. The following passage is about the 'price elasticity of demand' (PED) for tobacco. The reason why people reduce smoking in response to increases in the price of tobacco products has been a matter of some speculation. Depending on the size of the price increase, reduced consumption of tobacco products following increases in tobacco taxes can be quite substantial. In 1999, a World Bank review concluded that, all else being equal, price rises of about 10% would on average reduce tobacco consumption by about 4% in developed countries and about 8% in developing countries. The review conducted by the *International Agency for Research on Cancer* published in 2011 concluded that studies on the impact of price increases on total demand find a price elasticity of about -0.4.

(Source: <http://www.tobaccoinaustralia.org.au>)

- (a) What is 'price elasticity of demand' (PED) and how is it measured? (3)
- (b) Name **TWO** determinants of PED and give **ONE** example of a product whose demand is 'price elastic' and **ONE** example of a product whose demand is 'price inelastic'. (4)
- (c) From the information provided in the passage above, work out the 'price elasticity of demand' for tobacco in: i. developed countries and in ii. developing countries. Comment on your answers. (6)
- (d) The passage also refers to a 'price elasticity of total demand' of -0.4.
 - i. What does a PED of -0.4 mean? Is the demand for tobacco elastic or inelastic and what does it tell us about smokers' responsiveness to a change in price? (6)
 - ii. Is demand increasing or decreasing when price increases? How can you tell? (6)
- (e) Explain the relevance of price elasticity of demand for a firm's total revenue. State if price should fall or increase in order for a firm's total revenue to increase when PED is:
 - i. elastic and ii. inelastic. (6)

(Total: 25 marks)

3. A small restaurant prepares lunch meals for its clients. The table below provides information about the firm's 'total costs' in relation to the number of meals prepared. Each meal is sold at the price of €9.

Output of Meals	Total Cost (€)	Fixed Cost (€)	Variable Cost (€)	Total Revenue (€)	Profit / Loss (€)
0	5				
1	9				
2	12				
3	16				
4	30				
5	45				
6	65				

- (a) Copy the above table and complete the data in the columns showing the firm's:
 - i. fixed costs; ii. variable costs; iii. total revenue and iv. total profits / losses. (4)
- (b) On the graph paper provided, plot in **ONE** diagram, the firm's:
 - i. total revenue and ii. total costs. (6)
- (c) Using **TWO** examples for each, explain what 'fixed' and 'variable' costs are. (4)
- (d) Explain the meaning of 'marginal costs' and 'average total costs'. (4)
- (e) What does the term 'break even' mean and at what level of output/s does the restaurant break even? Show these outputs on the plotted graph used in answering Q3(b). (3)
- (f) At what level of output does the restaurant maximise its profit? Show this output on the plotted graph used in answering Q3(b). Why is 'profit' important to an entrepreneur? (4)

(Total: 25 marks)

SECTION B: MACRO ECONOMICS

4. As stated in the table below, the Maltese Government in 2015 registered a lower deficit in its finances. Economic growth led to a decline in the deficit, from 2.1 per cent of the GDP in 2014 to 1.4 per cent of the GDP in 2015. Government debt declined from 67.0 per cent to 64.0 per cent as a percentage of the GDP in 2014 and 2015 respectively.

GENERAL GOVERNMENT BALANCE		
<i>EURO millions</i>		
	2014	2015
Revenue	3,329.90	3,694.50
Expenditure	3,495.90	3,814.70
General government balance	-165.9	-120.3

(Source: Central Bank of Malta, 2017)

- (a) What is the difference between: i. a 'government deficit' and ii. 'national debt'? (4)
- (b) List **THREE** items of government revenue and **THREE** items of government expenditure. (6)
- (c) What is a country's GDP and why is knowledge of GDP important? (6)
- (d) List **TWO** ways how a government can finance its deficit. (4)
- (e) Briefly explain why economic growth, as stated in the above passage, may lead to a possible 'decline in the deficit'. (5)

(Total: 25 marks)

5.

Year	Retail Price Index (RPI)	Inflation rate
<i>Base Year: 1946</i>		
2008	743.05	4.26%
2009	758.58	2.09%
2010	770.07	1.51%
2011	791.02	2.72%
2012	810.16	2.42%
2013	821.34	
2014	823.89	
2015	832.95	
2016	838.29	
2017	849.77	

Source: National Statistics Office (NSO) 2017

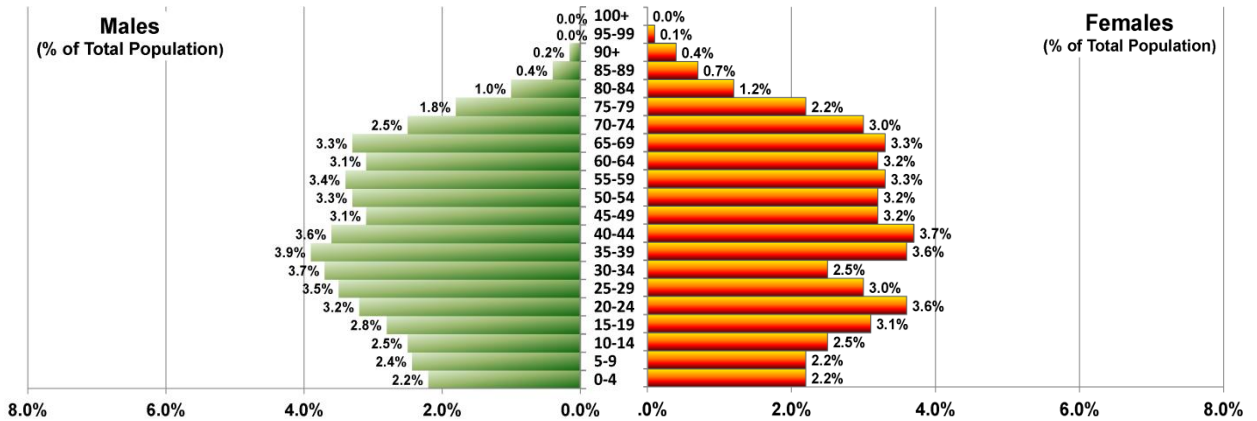
The table above shows the rate of 'inflation' as measured both by an annual Retail Price Index (RPI) and by annual price changes expressed in percentage terms, for the years 2008 - 2017.

- (a) Explain what the terms 'inflation' and 'deflation' mean. (4)
- (b) On the basis of changes in the RPI in the above table, calculate the rate of inflation for the years 2013 - 2017. (5)
- (c) Comment on how changes in inflation affect consumers. (4)
- (d) Distinguish between 'demand pull' and 'cost push' inflation. (4)
- (e) During a time of inflation, creditors are 'worse off' and debtors are 'better off'. Why? (4)
- (f) List **ONE** advantage and **ONE** disadvantage of increasing wages at times of inflation. (4)

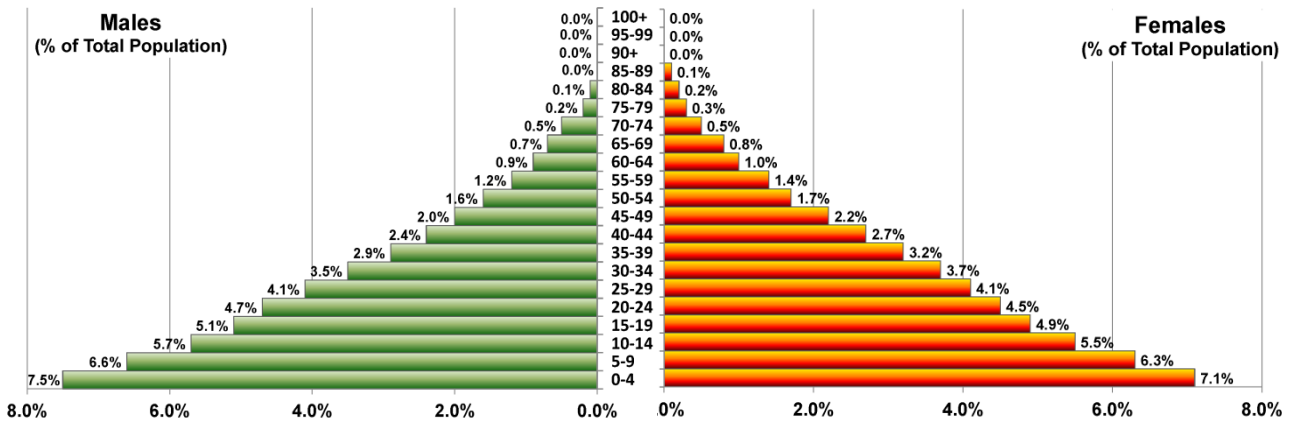
(Total: 25 marks)

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6. The graphs below illustrate the population pyramids for the countries of Malta and Ghana for the year 2016.



MALTA 2016 - Total Population: 460,297



GHANA 2016 - Total Population: 28,833,629

Estimated Data

Sources: www.populationpyramid.net, <http://www.worldometers.info>

- (a) What is the study of demography? (2)
- (b) List **THREE** factors that may bring about changes in the population size of a country and explain how an 'increase' in any of these factors may affect the size of the population. (6)
- (c) List **THREE** categories by which one can analyse the structure of a population and in each case explain why government or firms can find such information useful. (6)
- (d) Using information from the population pyramids above, explain the differences between the Maltese and Ghanaian population. Why is information gathered from a population pyramid useful to governments? (6)
- (e) With almost 1,400 people per square kilometre, Malta can be described as having one of the highest 'population densities' in the world. Can Malta be therefore described as an 'over-populated' state? What defines an over-populated state? (5)

(Total: 25 marks)



SUBJECT:	Economics
PAPER NUMBER:	IIA
DATE:	27 th April 2018
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. On the 1st February, the US firm Apple Corporation announced its 1st quarter 2017-2018 fiscal results. Revenue increased by 13% over the same period of the previous year and reached \$88.3 billion, an all-time record. The Gross Profit margin on sales for the second quarter is expected to be between 38% and 38.5%. Apple Corporation, now one of the world's biggest private enterprises, started its life as a small 'start-up' business in 1976.

(Source: www.apple.com)

- (a) What do the terms 'revenue' and 'profit' mean and how are they calculated? (4)
- (b) Why do entrepreneurs aim at making a profit? How can one tell if firms, such as Apple Corporation, are making 'normal' or 'abnormal' profits? (4)
- (c) What is meant by the 'Law of Diminishing Marginal Returns'? Why do firms only experience diminishing returns in the short run? (5)
- (d) List **THREE** benefits of 'internal economies of scale' for firms such as Apple Corporation. (6)
- (e) Briefly explain **THREE** ways how 'Malta Enterprise' helps Maltese firms. (6)

(Total: 25 marks)

2. Choosing the right location where to operate is critical for all firms.

- (a) What is meant by a 'multinational firm'? List **THREE** factors that firms take into consideration when choosing their location. (5)
- (b) List **THREE** advantages and **TWO** disadvantages of having such firms operating in a country such as Malta. (5)
- (c) How has the increase in employment within the 'Tertiary Sector' benefited the Maltese economy in recent years? (5)
- (d) How have educational institutions such as the University of Malta and MCAST, contributed to such changes? (5)
- (e) Distinguish between 'occupational' and 'geographic' mobility of labour. List **THREE** ways how employees can become more mobile. (5)

(Total: 25 marks)

Please turn the page.

3. In 2017 a proposed integration between two telecommunication companies – Vodafone Group Plc and the Melita Group – was called off because these companies failed to meet the conditions stipulated by 'The Malta Competition and Consumer Affairs Authority' (MCCAA).

- (a) What is the type of integration that was being planned between Melita and Vodafone called? Give **TWO** reasons why such firms may want to integrate into one company. (5)
- (b) Name and explain **TWO** other types of integration. (4)
- (c) The MCCAA was set up in order to protect the interests of consumers. Explain **TWO** negative impacts that an integration would have on consumers. (6)
- (d) Would consumers gain any benefits from such an integration? Explain your answer. (4)
- (e) List **TWO** advantages of perfectly competitive markets that are of benefit to consumers and to society at large. (6)

(Total: 25 marks)

4. 'As wages increase more people would be willing and able to work. At the same time firms would want to employ less workers with them.'

- (a) With reference to the above statement and using an appropriate diagram, explain how wages are determined in the labour market. (5)
- (b) Using another diagram, explain what a 'backward bending labour supply' curve is. (5)
- (c) In Malta a 'minimum wage' is set by the Government.
 - i. What do you understand by a 'minimum wage'?
 - ii. Using the same diagram in your answer to question 4(a) show how the setting of a minimum wage would affect the labour market.
 - iii. List **ONE** advantage and **ONE** disadvantage of a minimum wage. (5)
- (d) Some workers are paid more than others. List **FIVE** reasons why this may be so. (5)
- (e) What is the difference between a 'trade union' and an 'employer's association'? List **THREE** items that can be negotiated by trade unions. (5)

(Total: 25 marks)

SECTION B: MACRO ECONOMICS

5. The 'circular flow of income' is a very important macroeconomic concept.

- (a) Explain what is meant by the term 'circular flow of income'. (2)
- (b) What are the 'injections' and 'withdrawals' that flow in and out of the circular flow of income? (2)
- (c) Name **THREE** injections and **THREE** withdrawals. (6)
- (d) What does the term 'National Income' (NI) stand for? Name the **THREE** methods of measuring NI. (4)
- (e) What does a country's 'standard of living' tell us about a country's population and is NI a good measure of 'standard of living'? Give reasons for your answer. (5)
- (f) Name and explain **TWO** adjustments that should be made when comparing National Income statistics with previous years and with those of other countries. (4)
- (g) In what way is NI 'at constant prices' different from 'nominal' NI? (2)

(Total: 25 marks)

6. According to the Central Bank's Annual Report (2016), interest rates on bank deposits held by residents in Malta continued to decline. This decline was particularly evident in the case of 'long-term' deposits with the average rate of interest on deposits with a maturity of up to two years falling to 0.79% and 2.64% on deposits with a maturity of more than two years. In the case of sight deposits or 'overnight deposits', the interest rate fell to almost 0%. The Central Bank also reported that the demand for house loans continued to grow strongly.

(Source: Central Bank of Malta Annual Report (2016))

- (a) Define money and list **THREE** characteristics of money. (5)
- (b) What role do interest rates play in financial markets and how are they determined? (5)
- (c) Why are the interest rates on sight deposits lower than those on long term deposits? (5)
- (d) With reference to the passage above, what may explain the reason why:
 - i. interest rates have declined?
 - ii. the demand for house loans increased? (4)
- (e) List and explain **THREE** roles of the Central Bank of Malta (CBM). (6)

(Total: 25 marks)

7. Hi-tech electronic goods such as smart phones are designed in some countries, produced in others and sold in markets all over the world. Specialisation and trade on an international level has turned the world into one 'global village'.

- (a) Why do countries export goods or services and import other goods or services, such as smart phones, even if they are capable of producing them themselves? (4)
- (b) With the use of an example, explain what the term 'absolute advantage' means? (5)
- (c) Malta's economy depends on its exports for most of its employment and income. Using the concept of 'comparative advantage', explain why - in spite of enjoying no absolute advantages - it can still export its goods and services. (4)
- (d) Name **THREE** sectors in which Malta has become a significant exporter of goods or services. (3)
- (e) List **TWO** problems that a country may face if it chooses to specialise and produce only one product. (4)
- (f) Importing countries may need to obtain the currency of the exporting country in order to effect payment. Using a diagram, explain what happens to the value of the exporting country's currency if the demand for its exports increases. (5)

(Total: 25 marks)

8. Developing countries, particularly the less developed countries (LDCs), face many difficulties in seeking to improve their economic performance and welfare.

- (a) List and explain **THREE** characteristics that identify which countries can be considered as 'developed' and those that can be considered as 'less developed'. (6)
- (b) Define 'economic growth' and explain how economic growth can boost a country's development. (4)
- (c) Suggest **THREE** ways how LDC countries can be helped to achieve economic growth. (6)
- (d) How has joining the European Union (EU) helped Malta in its economic growth and development? (4)
- (e) While economic development is usually associated with social and economic progress, little is said about the social costs that must be also incurred. With the use of examples, explain why social costs should not be ignored. (5)

(Total: 25 marks)



SUBJECT:	Economics
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SECTION A: MICRO ECONOMICS

1. The US firm Apple Corporation increased its first quarter revenue for the year 2017 - 2018 by 13% over the same period of the previous year and reached \$88.3 billion, an all-time record. The Gross Profit margin on sales for the second quarter is expected to be between 38% and 38.5%. Apple Corporation, now one of the world's biggest private enterprises, started its life as a small business in 1976.

(Source: www.apple.com)

- (a) What do the terms 'revenue' and 'profit' mean? (2)
- (b) How are profits calculated? (2)
- (c) List **TWO** reasons why big firms, such as Apple Corporation, make huge profits. (4)
- (d) List **THREE** advantages gained by firms when becoming large in size. (6)
- (e) Do consumers benefit when purchasing goods or services from such firms? Explain your answer. (5)
- (f) List **THREE** reasons why small firms still manage to survive, in spite of strong competition from big firms. (6)

(Total: 25 marks)

2. Choosing the right location where to operate is very important for all firms.

- (a) What are multinationals? Give **ONE** example of a multinational operating in Malta. (3)
- (b) List **TWO** factors that such firms take into consideration when choosing their location. (2)
- (c) List **THREE** advantages and **TWO** disadvantages for a country to have such firms operating in its economy. (5)
- (d) Briefly explain what the 'three' sectors of the economy, namely the primary, secondary and tertiary sectors are. Which of these is the most important sector in Malta? (5)
- (e) Distinguish between occupational and geographic mobility of labour. List **THREE** ways how government can help employees become more mobile. (5)
- (f) There are various government organisations which have been set up to support local industries.
 - i. Name the institution that may influence location of industries in Malta and briefly explain how it can do so. (3)
 - ii. Which organisation helps recruitment and employment in Malta? List **TWO** services offered by this institution. (2)

(Total: 25 marks)

Please turn the page.

3. In 2017 a proposed merger between two telecommunication companies – Vodafone Group Plc and the Melita Group – was called off because these companies failed to meet the conditions stipulated by 'The Malta Competition and Consumer Affairs Authority' (MCCAA).

- (a) What does a merger between two firms mean? (2)
- (b) A merger between Vodafone Group Plc and Melita Group would inevitably lead to the integration of the two companies. Would such an integration be considered as a 'vertical' or as a 'horizontal' type of merger? Explain your answer. (3)
- (c) Give **TWO** reasons why such firms may want to merge into one company. (4)
- (d) Give **TWO** reasons why such a merger may be against the interest of consumers. (4)
- (e) What is a monopoly? (2)
- (f) Explain **TWO** ways how monopolies limit competition. (4)
- (g) List **TWO** ways how the government can protect consumers from monopolies. (6)

(Total: 25 marks)

4. 'As wages increase more people would be willing and able to work. At the same time firms would want to employ less workers with them.'

- (a) Using **ONE** diagram:
 - i. draw a demand for labour curve and a labour supply curve; (3)
 - ii. on your diagram show the equilibrium wage and equilibrium level of employment. (3)
- (b) List **TWO** factors that determine the 'demand' for labour and **THREE** factors that determine the supply of labour. (5)
- (c) In Malta a minimum wage is set by the Government.
 - i. What do you understand by a 'minimum wage'? (2)
 - ii. Draw a diagram to show the setting of a minimum wage. (1)
 - iii. Using the same diagram for Q4(c)ii explain how a minimum wage would affect the labour market. (1)
 - iv. Give **ONE** advantage and **ONE** disadvantage of a minimum wage. (2)
- (d) Some workers are paid higher wages than others. List **THREE** reasons why this may be so. (3)
- (e) What is the difference between a 'trade union' and an 'employer's association'? List **THREE** items that can be negotiated by trade unions. (5)

(Total: 25 marks)

SECTION B: MACRO ECONOMICS

5. The 'circular flow of income' is a very important macroeconomic concept.

- (a) What is meant by 'circular flow of income'? (2)
- (b) Why are Investment, 'government expenditure' and 'exports' considered as injections into the circular flow of income? (3)
- (c) Why are 'savings', 'taxes' and 'imports' considered as withdrawals or leakages out of the circular flow of income? (3)
- (d) What are the **THREE** methods of measuring 'National Income' (NI)? (6)
- (e) Using an example, explain what 'standard of living' means. (4)
- (f) Explain the following terms: i. NI per capita, ii. Real NI, iii. Nominal NI. (3)
- (g) Which of the terms in Q.5(f) above, should be used when comparing National Income statistics with those of other countries? (2)
- (h) Which of the terms in Q.5(f) above, takes changes in the general price level into account when comparing National Income statistics with previous years. (2)

(Total: 25 marks)

6. According to the Central Bank's Annual Report (2016), interest rates on bank deposits held by residents in Malta continued to decline. This decline was particularly evident in the case of 'long-term' deposits. In the case of 'sight' or 'overnight deposits', the interest rate fell to almost 0%.

(Source: CBM Annual Report 2016)

- (a) What is money? Explain **THREE** reasons why people hold money? (4)
- (b) List **THREE** characteristics of money. (3)
- (c) List **THREE** roles of the Central Bank of Malta (CBM) and **THREE** functions of Commercial Banks. (6)
- (d) What are interest rates and why are interest rates on short term bank 'sight' deposits, such as current or savings accounts, lower than those on long term 'fixed' deposits? (4)
- (e) Give **ONE** reason why the interest rates on loans and on bank accounts have been kept low in recent years. (2)
- (f) Malta is a member of the 'Economic and Monetary Union' (EMU). How does EMU unify its member states? (3)
- (g) What is the role of the European Central Bank (ECB) within the EMU? (3)

(Total: 25 marks)

7. Hi-tech electronic goods such as smart phones are designed in some countries, produced in others and sold in markets all over the world. Specialisation and trade on an international level, has turned the world into one 'global village'.

- (a) List **TWO** reasons why countries trade with other countries. (4)
- (b) Explain why 'specialisation' helps countries to trade more with each other. (4)
- (c) Name **THREE** sectors in which Malta specialises and trades. (3)
- (d) List **TWO** disadvantages for a country such as Malta, if it specialises and trades in only one sector. (4)
- (e) Most of Malta's trade is with EU countries. List **TWO** reasons why the EU has helped Malta to expand its international trade. (6)
- (f) List **TWO** ways how Malta's economy would be affected if its currency, the Euro, would increase in value when compared to another currency such as the British Sterling. (4)

(Total: 25 marks)

8. Developing countries, particularly the less developed countries (LDCs), face many difficulties in seeking to improve their economic performance and welfare.

- (a) List **TWO** characteristics of a 'developed country' and **TWO** characteristics of a 'less developed country'. (4)
- (b) Give **THREE** reasons why an economy may remain undeveloped. (6)
- (c) List **THREE** ways how LDC countries can be helped to achieve economic growth. (6)
- (d) How has joining the European Union (EU) helped Malta in its economic growth and development? (4)
- (e) What are 'social costs'? List **THREE** examples of social costs associated with economic development. (5)

(Total: 25 marks)