



SUBJECT:	Economics
PAPER NUMBER:	I
DATE:	17 th June 2021
TIME:	9:00 a.m. to 11:05 a.m.

This paper has two Sections.

Answer **ANY FOUR** questions. Questions carry 25 marks each.

SECTION A - MICRO ECONOMICS

1. This question is about the nature of the economic problem and economic systems.
Figure 1 below shows two production possibilities frontiers (PPFs) of two countries - PPFX and PPFY of countries X and Y respectively.

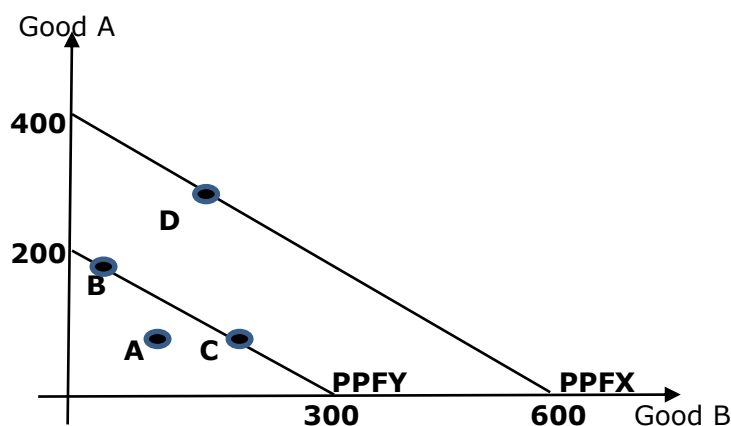


Figure 1: Production possibility frontiers of countries X and Y

- (a) (i) Explain how scarcity is illustrated through the production possibilities frontier. (2)
(ii) Country X enjoys more and/or better quality resources. Do you agree with this statement? Explain your answer. (2)
- (b) List the **FOUR** factors of production. (4)
- (c) For country Y, use Figure 1, above, to identify points of: (4)
(i) inefficiency;
(ii) efficiency;
(iii) shifts in allocation of resources;
(iv) economic growth.
- (d) (i) Is the opportunity cost of producing more of good B in terms of good A remaining the same, increasing or decreasing in country X? Explain your answer. (2)
(ii) Is the opportunity cost of producing more of good B in terms of good A the same, more or less in country Y than it is in country X? Explain your answer. (2)
- (e) (i) Provide **TWO** differences between public goods and merit goods. (4)
(ii) Give **ONE** example of a public good and **ONE** example of a merit good. (1)
- (f) Give **FOUR** reasons for government intervention in mixed economies. (4)

(Total: 25 marks)

Please turn the page.

2. This question is about the price mechanism.

Both supply and demand curves show the type and strength of relationship between price and quantity per period of time.

- (a) (i) Define demand. (2)
- (ii) State the law of supply. (2)
- (b) (i) Draw a properly labelled supply and demand diagram. (2)
- (ii) Assuming that supply increases at each price level, on the same diagram, show the change this would cause to the supply curve and any effect it might have on the equilibrium price and quantity. (2)
- (c) (i) Draw a diagram to show the difference between a movement along and a shift of the demand curve. (2)
- (ii) State the cause of a movement along the demand curve and **ONE** cause of a shift of the demand curve. (2)
- (d) State, for each of the following statements, whether they are true or false. Give a reason for your answer in each case.
 - (i) An increase in the price of an important component shifts the supply curve outwards. (2)
 - (ii) An increase in income causes an outward shift of the demand curve of a normal good. (2)
- (e) Explain what is meant by the following values:
 - (i) Price elasticity of supply is +0.2 (1)
 - (ii) Cross elasticity of demand is +1.2 (2)
 - (iii) Income elasticity of demand is +1.2 (2)
- (f) Use price elasticity of demand to distinguish between a necessity and a luxury. (4)

(Total: 25 marks)

3. This question is about market structures.

The market structure refers to the characteristics of the market that describes the nature of competition and the pricing policy followed in the market.

- (a) On the booklet provided, complete the following sentences using the words listed in the table below. Not all words provided must be used.

barriers	full	identical	maker	monopoly
partial	perfect competition	procedures	taker	unique

Under (i) , there is one seller of the product yet various buyers hence the seller has (ii) influence to set the price. Also, there are high (iii) to entry into and exit from the market. Under (iv) , there are large numbers of buyers and sellers in the market. Under this market structure, all sellers of the product sell (v) products and each firm is a price (vi) . (6)

- (b) State **FOUR** features that distinguish one market structure from another. (4)
- (c) Briefly explain **TWO** possible factors that create a monopoly. (4)
- (d) Assume that a perfectly competitive market establishes a market price of €0.40. Three firms within this market have the following cost per unit:

Firm	Alpha	Beta	Comet
Cost per unit	€0.40	€0.60	€0.20

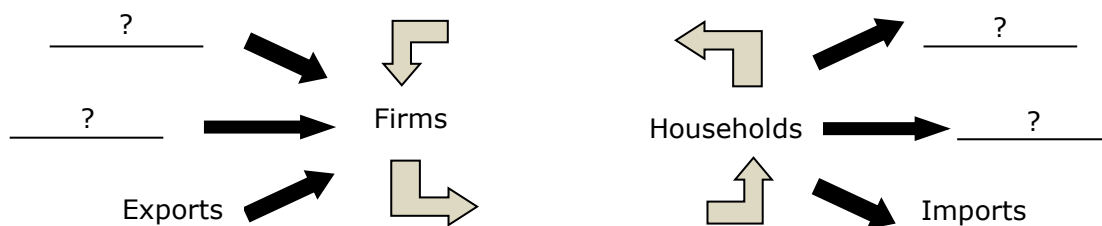
For each firm, state the type of economic profit being made. (3)

- (e) Give **TWO** factors that make a firm able to charge different prices for the same product. (4)
- (f) Briefly explain **TWO** possible advantages of a perfectly competitive market. (4)

(Total: 25 marks)

SECTION B - MACRO ECONOMICS

4. This question is about elementary national income analysis.



- (a) What is meant by:
 - (i) circular flow of income; (2)
 - (ii) injections and withdrawals (leakages)? (2)
- (b) Explain why imports are considered as a withdrawal (leakage) from the circular flow of income, while exports are considered an injection. (4)
- (c) On the booklet provided, draw the four-sector economy circular flow of income as shown above and complete the missing **TWO** withdrawals (leakages) and **TWO** injections. (4)
- (d) Using the four-sector economy circular flow of income explain how national income can be:
 - in equilibrium; (1)
 - increasing; (2)
 - decreasing. (2)
- (e) Briefly explain **TWO** ways of measuring national income. (4)
- (f) Briefly discuss **TWO** advantages of measuring national income by using more than one approach. (4)

(Total: 25 marks)

5. This question is about inflation.

Year	Harmonised Index of Consumer Prices (HICP)	Inflation rate (%)
Base year: 2015		
2015	100.00	1.21
2016	100.90	0.90
2017	102.18	1.27
2018	103.95	?
2019	105.54	?
2020	106.37	?

Source: National Statistics Office (NSO) 2020

- (a) Define the following terms:
 - (i) Inflation; (2)
 - (ii) Hyperinflation; (2)
 - (iii) Suppressed inflation. (2)
- (b) (i) What is meant by the internal value of money? (2)
- (ii) How is the internal value of money affected by inflation? (2)
- (c) From the table provided calculate the inflation rate for the years 2018 – 2020. (3)
- (d) Briefly explain demand-pull inflation and cost-push inflation. (4)
- (e) Mention and briefly describe **TWO** possible methods of controlling demand-pull inflation. (4)
- (f) Inflation affects different sectors of society in different ways. Discuss **ONE** possible gainer and **ONE** possible loser of inflation. (4)

(Total: 25 marks)

Please turn the page.

6. This question is about demography (population).

Population of Malta by age group		
	1977	2019
Ages	Total (000's)	Total (000's)
0-4	26.7	23.5
5-9	23.3	22.8
10-14	25.8	21.2
15-19	31.9	22.3
20-24	28.6	32.1
25-29	28.7	43.5
30-34	22.5	42.1
35-39	17.5	39.1
40-44	16.8	35.3
45-49	16.5	29.9
50-54	15.6	28.0
55-59	13.7	31.0
60+	37.4	122.8
Total	305.0	493.6

Source: National Statistics Office (NSO) 2020

- (a) With reference to Malta:
- Name and briefly explain **TWO** factors that may bring about changes in the size of the population. (4)
 - Explain how a decrease in any of these factors may affect the size of the population. (2)
- (b) One way to analyse the population is by age groups, as shown in the table above. Explain **TWO** other ways how the total population of a country may be analysed. (4)
- (c) Assuming that the school leaving age is 19 and the retirement age is 60, from the table above calculate the following for both years:
- Dependent population; (1)
 - Working population; (1)
 - Dependency ratio. (1)
- (d) With a land area of 315.6km², Malta's population density is one of the highest in the world.
- From the information provided in the table calculate the population density of Malta. (1)
 - Explain the significance of this figure in terms of the island's scarce resources (3)
- (e) Explain **TWO** economic problems which could result due to a change in the age structure of Malta's population. (4)
- (f) Discuss **TWO** measures the government of Malta could use to overcome problems associated with an increase in Malta's population. (4)

(Total: 25 marks)



SUBJECT:	Economics
PAPER NUMBER:	IIA
DATE:	18 th June 2021
TIME:	9:00 a.m. to 11:05 a.m.

This paper has two Sections.

Answer **ANY FOUR** questions. Questions carry 25 marks each.

SECTION A: MICRO ECONOMICS

1. This question is about production and costs.
- (a) (i) Define: fixed costs, variable costs, total costs. (3)
(ii) Draw on the same diagram the marginal cost curve and the average cost curve as they behave according to the law of diminishing returns. (2)
- (b) (i) Give an example of the use of division of labour in the manufacturing of a product. (2)
(ii) 10 workers produce 1,000 units of a product in a week. 11 workers would have produced 1,155 units in the same week while 12 workers would have produced 1,320 units. Make use of these figures to show whether diminishing returns have set in or not. Show your workings. (4)
- (c) (i) Give **TWO** circumstances when a firm may be considered small. (2)
(ii) Briefly explain **THREE** possible reasons for the existence of small firms. (6)
- (d) Provide **THREE** possible reasons justifying the importance of the services sector in the Maltese economy. (6)
- (Total: 25 marks)**

2. This question is about different forms of enterprise, reasons for the differences in their scale and organisation.
- (a) Define the following:
(i) internal growth; (2)
(ii) external finance; (2)
(iii) privatisation. (2)
- (b) Show that **TWO** different types of cooperatives exist with different aims using real-life examples from Malta. (5)
- (c) Distinguish between a business partnership and a public limited company with reference to:
(i) owners;
(ii) documents required;
(iii) the ability to raise capital;
(iv) limited liability. (8)
- (d) "Integration can only occur within the same stage of production and same industry." Do you agree with this statement? Justify your answer. (6)
- (Total: 25 marks)**

Please turn the page.

3. This question is about industrial location.

- (a) (i) Define occupational mobility and geographical mobility. (4)
(ii) State the name of the institution whose main function is to support local, as well as foreign, entrepreneurs operating or wanting to operate from Malta. Mention **ONE** service that this institution provides to serve its function. (2)
- (b) State the term used to describe a company operating in several countries. Briefly explain **THREE** benefits a country achieves from having such companies located within it. (7)
- (c) Analyse the changes in employment patterns in Malta in recent years for the primary, secondary and tertiary sectors. (6)
- (d) A local company operating a number of car fuel stations across the island is considering opening a new one. Write a short report discussing **THREE** economic factors it should take into account. (6)

(Total: 25 marks)

4. This question is about theory of distribution.

- (a) (i) Government intervenes in the labour market in various ways, one of which is through legislation. Name the main legislation through which the government intervenes in Malta's labour market. (2)
(ii) Another way in which the government intervenes in the labour market is through a corporation called Jobsplus. List **THREE** general and/or specific functions of Jobsplus in relation to the employment service. (3)
- (b) Briefly describe **THREE** factors affecting the supply of labour other than the wage rate. (6)
- (c) Explain how each of the following causes wage differentials between individuals:
(i) skills; (2)
(ii) growth of the industry; (2)
(iii) length of service. (2)
- (d) (i) Draw a diagram showing an effective minimum wage in the labour market. (2)
(ii) Give **TWO** arguments for and **ONE** argument against the imposition of a minimum wage in the labour market. (6)

(Total: 25 marks)

SECTION B: MACRO ECONOMICS

5. This question is about money and the role of and contribution of financial institutions in an economy.

- (a) Name **FOUR** forms of money used in today's world. (4)
- (b) (i) Give **ONE** scenario to show that barter is possible between John and Susan. (3)
(ii) Give **ONE** scenario to show that barter is **not** possible between Claire and Raymond. (3)
- (c) Discuss the difference between the Malta Financial Services Authority (MFSA) and the Central Bank of Malta. In your answer mention at least **TWO** functions of each institution. (8)
- (d) Why do commercial banks lend money? Explain **TWO** possible motives why people hold some of their wealth in forms that do not yield interest. (7)

(Total: 25 marks)

6. This question is about the structure of and the reasons for government's revenue and expenditure.

The stream of budget surpluses which were recorded between 2016 and 2019 is projected to end abruptly as a result of COVID-19. Malta is expected to register a budget deficit equivalent to 9.4% of GDP in 2020 and 5.9% in 2021. The national debt is expected to increase from 42.6% in 2019 to 58.6% in 2021.

- (a) Define the following:
- (i) budget deficit; (2)
 - (ii) national debt. (2)
- (b) Explain why as a result of the pandemic:
- (i) the government budget is expected to move from a surplus to a deficit; (3)
 - (ii) national debt is expected to increase. (3)
- (c) Distinguish between progressive, proportional and regressive taxation. Substantiate your answer with **ONE** example for each. (9)
- (d) Give **TWO** advantages of a direct tax and **ONE** advantage of an indirect tax. (6)

(Total: 25 marks)

7. This question is about unemployment.

According to the Labour Force Survey (LFS) during the third quarter of 2020 the number of unemployed persons in Malta stood at 12,589, equivalent to 2.9%.

- (a) (i) Define unemployment. (1)
- (ii) Briefly describe **TWO** different types of unemployment. (4)
- (b) (i) Describe **TWO** tools of fiscal policy that may help to reduce demand side unemployment. (4)
- (ii) Briefly describe how monetary policy helps to reduce demand side unemployment. (4)
- (c) Has demand for labour been influenced positively or negatively by the Covid-19 pandemic? Explain why. (6)
- (d) Evaluate **THREE** possible consequences of high rates of unemployment on the economy. (6)

(Total: 25 marks)

8. This question is about economic growth.

- (a) Define economic growth and explain, with an appropriate numerical example, how it is measured. (4)
- (b) Draw an appropriate diagram to show that economic growth has taken place. Explain your diagram in some detail. (7)
- (c) Explain **FOUR** possible causes of economic growth. Provide appropriate examples for each. (6)
- (d) Economic growth has both benefits and costs. Discuss **TWO** benefits and **TWO** costs of economic growth. (8)

(Total: 25 marks)



SUBJECT:	Economics
PAPER NUMBER:	IIB
DATE:	18 th June 2021
TIME:	9:00 a.m. to 11:05 a.m.

This paper has two Sections.

Answer **ANY FOUR** questions. Questions carry 25 marks each.

SECTION A: MICRO ECONOMICS

1. This question is about production and costs.

Factors of production is an economic term that describes the inputs used in the production of goods or services in order to make an economic profit. These include any resource needed for the creation of a good or service. These factors are applied to different stages of production in order to produce a good or provide a service.

(a) Briefly describe each of the **THREE** stages of production. (3)

(b) Decide which of the following statements are correct and copy them on your answer booklet:

- Marginal cost is the cost of producing one additional unit of output.
- Average cost is calculated as total cost divided by the change in output.
- Average cost is the cost per unit of output.
- Marginal cost is never equal to average Cost. (4)

(c) The following table shows the total cost for different levels of output:

Output	0	10	20	30	40	50	60	70	80	90
Total Cost (€)	25	42	55	64	81	105	139	172	209	250

Use the table above to calculate to one decimal place, where necessary:

- the fixed cost; (2)
- the average variable cost at every level of output. (3)

(d) On the graph paper provided, plot the average variable cost curve from the calculations made in (c), above. Label appropriately the axis and curve. (5)

(e) Briefly explain **TWO** possible reasons for the existence of small firms. (4)

(f) Briefly explain **TWO** advantages of division of labour. (4)

(Total: 25 marks)

2. This question is about different forms of enterprise, reasons for the differences in their scale and organisation.

(a) (i) Define privatisation. (2)

(ii) Give **ONE** example of a state-owned enterprise. (1)

(b) (i) Name **TWO** types of business co-operatives and briefly describe the purpose of **ONE** of the types you name. (3)

(ii) List **THREE** features of a sole trader. (3)

This question continues on next page.

- (c) Cee Ltd is a business operating in the agriculture industry. To form the company, the owners had to write a Memorandum of Association. Peter and Mark would like to form a similar business in the agricultural industry too but in the form of a business partnership.
- (i) Which important document should Peter and Mark write before they can start trading as a partnership? (1)
- (ii) Should both Cee Ltd and Peter and Mark’s business go bankrupt, would it be Peter and Mark or the owners of Cee Ltd that would possibly suffer more financially? Briefly explain your answer. (3)
- (d) Cee Ltd is considering expanding its operations. The owners are not sure whether to merge with or take over another business.
- (i) Give **ONE** example of a merger and **ONE** example of a takeover. (2)
- (ii) Explain the following types of integration and apply them to the business of Cee Ltd:
- vertical forward integration; (2)
 - horizontal integration. (2)
- (e) Give **ONE** similarity and **TWO** differences between firms in the private sector and firms in the public sector. (3)
- (f) State **THREE** motives why firms may choose external sources of finance rather than internal. (3)

(Total: 25 marks)

3. This question is about industrial location.

Location, location, location. This is a phrase used by many real estate agents. It means homes can vary widely in value due to their location. However, location is important not only for homes but also for businesses.

- (a) Define occupational mobility and geographical mobility. (6)
- (b) (i) State the name of the institution whose main function is to support local, as well as foreign, entrepreneurs operating or wanting to operate from Malta. (1)
- (ii) Mention **THREE** services that this institution gives to serve its function. (3)
- (c) State the term used to describe a company operating in several countries. (2)
- (d) Briefly explain **THREE** benefits a country achieves from having such companies located within it. (6)
- (e) Analyse the changes in employment patterns in Malta in recent years for the primary, secondary and tertiary sectors. (3)
- (f) A local company operating a number of car fuel stations across the island is considering opening a new one. Write a short report discussing **TWO** economic factors the company should consider. (4)

(Total: 25 marks)

4. This question is about theory of distribution.

The labour market is a concept representing the interaction between the wage rate and the supply of and demand for labour.

- (a) (i) Name the legislation that regulates employment in Malta. (2)
- (ii) List **TWO** aims of Jobsplus. (4)
- (b) List **TWO** factors that cause an outward shift in the demand curve of labour. (4)
- (c) Consider the data in the table below:

Wage rate (€)	5	10	15	20	25
Demand for labour	50	40	30	20	10
Supply of labour	10	20	30	40	50

- (i) Using the data provided in the table, identify the equilibrium wage rate. (1)
- (ii) Calculate the new equilibrium wage rate if the demand curve for labour shifts out by 20 units at all wage rates. Show your workings. (2)
- (d) Sketch a supply and demand graph of the labour market shown in (c), above, illustrating also the shift in the demand curve. Your sketch should include drop lines clearly showing the original and the new values of the equilibrium wage rates. (4)
- (e) Briefly describe **TWO** factors leading to wage differentials between workers in the same occupation. (4)
- (f) Give **ONE** argument for and **ONE** argument against the imposition of a minimum wage in the labour market. (4)

(Total: 25 marks)

SECTION B: MACRO ECONOMICS

5. This question is about money and the role of and contribution of financial institutions in an economy.
- (a) Name **THREE** forms of money used in today’s world. (6)
 - (b) Name **ONE** function and **ONE** characteristic of money. (4)
 - (c) (i) Give **ONE** example to show that barter is possible between John and Susan. (3)
 - (ii) Give **ONE** example to show that barter is **not** possible between Claire and Raymond. (3)
 - (d) Explain what happens to the supply of money when the central bank takes a tight monetary stance. (2)
 - (e) Discuss the difference between the Malta Financial Services Authority (MFSA) and the Central Bank of Malta. In your answer mention at least **ONE** function of each institution. (4)
 - (f) Why do commercial banks lend money? Explain **ONE** possible motive why people hold some of their wealth in forms that do not yield interest. (3)

(Total: 25 marks)

6. This question is about the structure of and the reasons for government’s revenue and expenditure.

Year	Total Revenue (EUR million)	Total Expenditure (EUR million)	Surplus/Deficit (EUR million)	GDP (EUR million)
2016	3,898.3	3,798.4	99.8	10,538.4
2017	4,443.1	4,069.2	373.9	11,638.7
2018	4,814.7	4,567.9	246.8	12,491.0
2019	5,052.3	4,988.2	64.1	13,390.0
2020	4,727.5	5,907.5	?	12,544.9
2021	5,201.5	5,994.0	?	13,351.4

Draft Budgetary Plan 2020

- (a) Define the following:
 - (i) budget deficit; (2)
 - (ii) national debt. (2)
- (b) (i) What is the impact of a budget surplus on government debt? (1)
- (ii) Mention **TWO** ways how a government may reduce a budget deficit. (4)
- (c) From the table provided find the budget deficit/surplus expected for 2020 and 2021 in **BOTH** euro millions and as a per cent of GDP. (4)
- (d) State whether the government is expected to register a budget deficit or budget surplus in 2020 and 2021. In light of the COVID-19 pandemic provide **ONE** reason for this. (4)
- (e) Distinguish between progressive and regressive taxation. (4)
- (f) Give **ONE** advantage of a direct tax and **ONE** advantage of an indirect tax. (4)

(Total: 25 marks)

7. This question is about unemployment.

Year	Population aged 16-65 '000	Labour supply '000	Unemployed population '000
2015	300.7	195.0	11.4
2016	305.9	207.5	9.5
2017	317.0	223.6	9.4
2018	330.6	240.7	9.0
2019	346.5	256.2	9.6

Source: Adapted from National Statistics Office (NSO) 2020

According to the Labour Force Survey (LFS) during the third quarter of 2020 the number of unemployed persons in Malta stood at 12,589, equivalent to 2.9%.

- (a) Define unemployment. (2)
 - (b) Name **THREE** types of unemployment. (6)
 - (c) From the table above calculate the unemployment rates for each of the years 2015 to 2019. (5)
 - (d) Describe **TWO** tools of fiscal policy that may help to reduce demand side unemployment. (4)
 - (e) Analyse **TWO** possible effects the COVID-19 pandemic has had on the labour market in Malta. (4)
 - (f) Evaluate **TWO** possible consequences of high rates of unemployment for the economy. (4)
- (Total: 25 marks)**

8. This question is about economic growth.

Year	Nominal GDP (Euro thousands)	Price Index	Real GDP (Euro thousands)	Population	Real GDP per capita (Euro)	Growth Rate (%)
2018	12,508,296	106.2	11,779,145	493,559	23,865.7	n.a
2019	13,462,410	108.6	?	514,564	?	?

Source: National Statistics Office (NSO) 2020

- (a) Define economic growth. (2)
 - (b) (i) What is real GDP per capita? (2)
 - (ii) How is economic growth measured? (2)
 - (c) Using the table above, calculate to 1 decimal place for 2019:
 - (i) real GDP; (1)
 - (ii) real GDP per capita; (1)
 - (iii) rate of economic growth. (1)
 - (d) Illustrate economic growth with an appropriate diagram. (6)
 - (e) Mention **ONE** cause of economic growth and provide an appropriate example. (4)
 - (f) Economic growth has both benefits and costs. Discuss **ONE** benefit and **ONE** cost of economic growth. (6)
- (Total: 25 marks)**