

**IM SYLLABUS (2011-2013)**

**ECONOMICS**

**IM 08**

**SYLLABUS**

**Economics IM 08  
Syllabus**(Available in September)  
Paper I: Written exam (3 hrs)**Aim**

As a general guideline, the emphasis in the teaching and examination of students following a course in Intermediate Economics will be on the application of basic economic concepts to issues of current interest. The aim is to train the students to be able to handle concepts which are perceived of being of immediate use to them. Hence, students should be encouraged to read financial and economic reports and letters in the papers regularly and use these publications as topics for discussion.

**Syllabus**

The syllabus is divided into two main areas, namely, Economic Principles, divided into nine subheadings, and Economic Issues and Policies made up of three blocs. Explanatory notes on the contents of every sub-heading or bloc are included for guidance.

**Reference Works**

The selected list of general reference works on economic principles and methodology is appended. Publications on the state of the Maltese economy or sectoral analyses and articles appearing in such journals as Economic and Social Studies, published by the Faculty of Economics, Management and Accountancy of the University of Malta, and Bank of Valletta Review published by the Bank of Valletta, are of interest to teachers and students alike.

**The Examination Paper**

The three-hour paper consists of two sections. Section A, carrying a total of 40% of the marks, will be of the short-answer type; it will stress principles and definitions rather than applications. Eight questions will be set and all questions have to be answered. Section B, with a 60% weight, will consist of long answer questions. Candidates will have to answer three questions out of the five set.

SYLLABUS	NOTES
<b><i>1. Economic Principles</i></b>	
1. Economic principles 1.1 <i>The Economic Problem</i> Unlimited wants and limited means of satisfying these wants. Scarcity and choice; opportunity choice; production possibility curves. The principle of comparative advantage as applied to individuals, firms, regions and countries; specialisation and exchange; the role of money. Factors of production: land, labour (including the role of the entrepreneur) and capital. The economic features of these factors: efficiency, mobility and supply. Alternative ways of trying to solve the economic problem: free market, mixed and planned economies. The relative advantages and disadvantages of each system.	The purpose of this section is to provide a brief introduction to the course and to give students a broad understanding of the main economic issues that face any country.
1.2 <i>System</i> Definition of a market demand curve. Conditions of demand; distinction between a shift of a movement along the demand curve. Complements and substitutes. Determinants and calculation of price, income and cross elasticity of demand.	Students should concentrate on the market demand curve, not the individual demand curve. Therefore a knowledge of marginal utility theory and indifference curve analysis is not required. Students should be aware that quality demanded is not always inversely related to price, e.g. conspicuous consumption.
1.3 <i>Supply</i> Definition of a market supply curve. Conditions of supply, distinction between a shift of and a	Students should concentrate on the market supply curve, not the individual supply curve. Therefore a derivation of the supply curve from marginal cost

<p>movement along the supply curve. Elasticity of supply; determinants of and calculations of elasticity of supply; influence of time on elasticity</p>	<p>will not be expected.</p>
<p>1.4 <i>The Price Mechanism and the Allocation of Resources</i>                      Interrelationship of supply and demand; equilibrium price and quantity in product and factor markets. The effects of changes in supply and demand on equilibrium prices and quantities</p>	<p>Students should understand the price mechanism as a means of allocating scarce resources using the concepts contained in sections 1.2 and 1.3. The ability to apply these concepts in analysing markets will be required, e.g. raw material markets, housing. Students should be aware that markets are frequently in disequilibrium, and that changing prices or excess demand / supply are evidence of this.</p>
<p>1.5 <i>The Circular Flow of Income.</i>                      The Circular flow of income between households, firms and government; open and closed economies. Withdrawals from and injections into the circular flow. The components of <i>aggregate</i> demand: consumption; investment; government expenditure; exports minus imports.</p>	<p>The concept of equilibrium and disequilibrium should be considered in the context of the circular flow of income. The distinction between government expenditures which constitute part of the final demand for goods and services and those which are transfer payments should be understood. With reference to the consumption function knowledge of the Keynesian approach will be sufficient.</p>
<p>1.6 <i>Determinants of the Level of National Income</i>                      Income / Output equals planned expenditure (planned withdrawals equal planned injections). Distinction between full employment and equilibrium levels of National Income. Determinants of the multiplier. The relationship between <i>aggregate</i> demand, output, employment and price level. The relationship between money and real national income.</p>	<p>The expenditure method of measuring economic activity should be understood. A knowledge and understanding of the income / expenditure (45o) diagram and of the injections / leakages diagrams is required. The distinction between average and marginal propensity to consume (and save) is relevant for an understanding of the multiplier. Students should be familiar with the main Price Deflators, namely, GDP Implicit Deflators, the Consumer Price Index and the Retail Price Index. They should also understand the meaning of “full employment” and the problems in measuring the number of unemployed. National Accounts and unemployment data must refer to the Maltese economy.</p>
<p>1.7 <i>Government Expenditure and Revenue</i>                      The main items of government expenditure: current and capital. Transfer payments. The reasons for the changing pattern of public spending and the consequences thereof. Different forms of taxation: direct and indirect. The balance between revenue from taxation and government expenditure.</p>	<p>The changing pattern of the public spending refers to both its growth in total over time and composition. Students should be familiar with changes in the balance between public and private expenditure and the likely consequences of such changes. Students should understand the reasons for and the consequences of progressive and regressive taxation.</p>
<p>1.8 <i>Money, Banking and other financial Institutions</i>                      Alternative measures of money and liquidity. Bank lending and the creation of bank deposits. The structure of bank assets and liabilities. The functions of a central bank, a stock exchange and other financial institutions.</p>	<p>Students should know alternative measures of money and liquidity. A knowledge of how banks create credit through lending is required. Students should understand the need of commercial banks to reconcile a balance between profitability and liquidity.</p>
<p>1.9 <i>International Trade and Exchange</i>                      The reasons for international trade. The components of the balance of payments. The determinants of exchange rates. The significance of the terms of trade.</p>	<p>The principle of comparative advantage as applied to countries (section 1.1) is relevant in terms of the rationale for international specialisation of production. Students should understand the following: both the current and capital accounts of</p>

	the balance of payments and the balance for official financing; that the demand for, and supply of, foreign currencies determines the equilibrium rate of exchange.
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<b>2. Economic Issues and Policies</b>	
<p><b>2.1 The Price Mechanism, Market Failure and Government Intervention</b></p> <p>Factors affecting the size of the firms; advantages and disadvantages of growth; forms of growth. Imperfections in product markets; Causes and consequences of price fluctuations, methods of reducing fluctuations. Price controls: merit and demerit goods. External costs and benefits. Public goods. Privatisation/nationalisation. Imperfections in factor markets; the activities of trade unions; the effects of minimum wage legislation. Government policy relating to labour mobility.</p>	<p>Students should be able to demonstrate an understanding of the price mechanism as an allocating agent, of its imperfections, and of the concept of economic efficiency. Imperfections in product and factor markets should include a consideration of monopoly, oligopoly and monopsony. Price fluctuations should be analysed with regards to the specific markets. Methods of internalising external costs and benefits should be examined. The economic arguments for and against privatisation and nationalisation should be considered. The effects of controls on prices and incomes e.g. rent control, minimum wage rates and incomes policies.</p>
<p><b>2.2 Unemployment, Inflation and Macro-economic policies</b></p> <p>Full employment and price stability as policy objectives. Causes and effects of unemployment and inflation; the relationship between unemployment and inflation. Fiscal policy and (a) the level of aggregate demand, (b) the pattern of demand; discretionary and automatic policy. Monetary policy and the level of aggregate demand. Alternative methods of influencing money supply and interest rates. Effectiveness and limitations of demand management and supply side policies. Benefits, costs and effectiveness of prices and incomes policies. Macroeconomic policies and the external balance.</p>	<p>Students should understand the distinction between voluntary and involuntary unemployment, demographic changes and migration. They should be able to discuss the consequences of inflation for households, firms and governments. In discussing the multiplier, the effects of changes in government expenditure and taxation should be examined. Discussion of alternative methods of influencing the money supply should include the significance of budget deficits and therefore the interaction of fiscal and monetary policy. Other methods such as interest rate policy, direct controls and monetary base control should be examined. Students should understand different approaches to demand - management and the significance of the supply side of the economy. Although the emphasis in this section is on internal factors, students should appreciate that policy affects and is affected by the external balance.</p>
<p><b>2.3 International Economy</b></p> <p>Economic growth and development; the determinants, benefits and costs of economic growth. Economic disparities between countries. Causes and consequences of balance of payments disequilibria in developing and developed countries. The international debt problem. Methods of correcting disequilibria: exchange rate adjustments, tariffs, quotas, exports subsidies, exchange controls, deflation. International economic institutions, including the European Union.</p>	<p>Students should be familiar with broad indicators of economic disparities between countries. They should also be aware of the debate about the effectiveness of economic assistance and the problems posed by international debt. The importance and changing pattern of international trade should be discussed with references to the Maltese economy. Students should understand the following: the implications of changes in the balance of payments and exchange rate for employment, the general level of prices and the standard of living; the benefits and costs of policies to correct disequilibria; the main functions of the IMF, IBRD (The World Bank), EBRD, GATT and EMS.</p>

**Suggested Text**

Stanlake, G. F. (Author), Grant, S. J. (Editor), **Stanlake's Introductory Economics**, 7<sup>th</sup> Edition, Longman