

**IM SYLLABUS (2018)**

**ECONOMICS**

**IM08**

**SYLLABUS**

### **Aim**

The aim of the course is to introduce students to the basic concepts, theories and principles that will provide the foundation for a proper understanding of how an economy works. The syllabus seeks to equip students with the basic tools necessary for an understanding and interpretation of economic issues relevant to Malta and the wider international community. It attempts to stimulate interest and demonstrate the relevance of economic theory in exercising the skills required when rational decisions have to be made.

### **Scheme of Assessment**

The Assessment consists of a three-hour written paper, divided into three sections.

Section A will consist of a **compulsory** case study carrying 20% of the total marks. The case study will be presented in the form of an excerpt with accompanying questions. Between three and six questions will be set. Each question will carry not less than 2 marks but not more than 10 marks each. Questions from Section A may cover any topic from the syllabus with the aim of assessing how students can apply the theoretical basics of the subject to a real life case study.

Section B carries 40% of the total marks. It will cover Microeconomic concepts. Section B will have four questions from which candidates have to answer two. Each question carries 20% of the marks.

Section C carries 40% of the total marks. It will be based on Macroeconomic concepts. Section C will have four questions from which candidates have to answer two. Each question carries 20% of the marks.

**Content**

**Microeconomics**

| <b>Topic</b>                                      | <b>Description</b>   | <b>Content</b>   |
|---|--|--|
| <b>Introduction to Economics</b>                  | This unit examines the basic economic problem that confronts any society, and the essential questions it poses. Students should be able to appreciate the nature of the free market and the rationale of government intervention in a mixed economy. | Scarcity, choice and opportunity cost<br><br>The factors of production<br><br>The production possibility curve<br><br>Main features of free market and government intervention   |
| <b>The Price Mechanism:<br/>Demand and Supply</b> | This unit explains how the price mechanism functions to determine the equilibrium price and quantity of a good. It also shows how variations in demand and/or supply affect equilibrium price and quantity.  | The law of demand - The negative relationship between quantity demanded and product's price including the income and substitution effects<br><br>Distinction between movements along and shifts in the demand curve<br><br>Supply and price: law of supply<br><br>Distinction between movements along and shifts in the supply curve<br><br>Price and output determination in a free market; causes and effects of a change in price |

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| <p><b>The measurement and significance of Demand and Supply Elasticities</b></p> | <p>This unit examines different supply and demand elasticities and impresses upon the student the importance of the concept of elasticity in economic analysis.</p>                                      | <p>Price elasticity of demand – definition, measurement, interpretation, determinants and importance of price elasticity of demand</p> <p>Income and cross-price elasticity of demand - definition, measurement, interpretation, determinants and importance</p> <p>Price elasticity of supply – Definition, measurement, interpretation, determinants and importance</p> |
| <p><b>Applications of the Price Mechanism</b></p>                                | <p>This unit shows how demand and supply analysis can be used to analyse and understand the effects of government intervention in real life market situations.</p>                                       | <p>Minimum and maximum price controls including applications such as minimum wage legislation and rent law legislation</p> <p>Consumer and producer effects of indirect tax and subsidies on the market price</p>   |
| <p><b>The Theory of Demand: Consumer Behaviour</b></p>                           | <p>This unit touches on the Marginal Utility theory to understand how consumers determine the optimum level of consumption of a good or service</p>  | <p>Total and Marginal Utility</p> <p>The principle of diminishing marginal utility</p> <p>Optimum level of consumption of a single commodity</p> <p>Consumer Surplus</p>  |
| <p><b>The Theory of Supply</b></p>   | <p>The aim of this unit is to study the firm’s production function. It shows how the utilization of factor inputs can influence the output and cost levels both in the short run and in the long run</p> | <p>Distinction between short run and long run production</p> <p>Short-run Production Function: The Law of Variable Proportions</p> <p>The advantages and disadvantages of specialisation</p> <p>The classification of short-run costs into fixed and variable costs.</p>  |

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|  |  | <p>Returns to scale: Economies and diseconomies of scale</p> <p>Distinction between Internal and External Economies and diseconomies of scale</p>  |
| <b>Profit Maximisation</b>   | <p>In this unit students learn that the main aim of the firm is assumed to be that of profit maximization and this is achieved by producing that output level at which TR after deducting TC is at its greatest.</p> | <p>The relevance of profit in a market economy</p> <p>Profit maximization using TR-TC approach (assuming that TR increases continuously at a constant rate)</p> <p>Distinction between normal profit, supernormal profit and economic losses</p> |
| <b>Two extreme positions of market structures - perfect competition and monopoly</b> | <p>This unit outlines the basic characteristics of both perfect competition and monopoly including the possible advantages and disadvantages of both.</p>  | <p>Main characteristics and possible advantages and disadvantages of both market structures.</p>   |
| <b>Imperfect Competition</b>   | <p>Students are introduced to the types of market structures within imperfect competition. It examines the different characteristics in imperfectly competitive market situations.</p>                               | <p>Characteristics of monopolistic competition and oligopoly</p> <p>Knowledge of terms such as collusive and non-collusive behaviour, non-price competition, price discrimination</p>  |
| <b>Market Failure</b>  | <p>This unit discusses the reasons why markets fail to perform optimally and possible remedies.</p>  | <p>Symptoms of market failure such as public goods, merit goods, demerit goods, asymmetric information, monopolies and externalities. Possible remedies in terms of government intervention</p>  |

## Macroeconomics

| Topic   | Description   | Content  |
|---|---|--|
| <b>The scope of macroeconomics</b>              | The study of macroeconomics examines the economy as a whole. It deals with aggregate demand and supply together with output, employment and prices at national level.   | <ul style="list-style-type: none"> <li>• The major macroeconomic objectives.</li> </ul>  |
| <b>The circular flow of income</b>              | The circular flow of income is a model meant to explain how money flows between firms and households. However, not all incomes get passed on directly since some income is withdrawn and some is injected from outside. | <ul style="list-style-type: none"> <li>• The circular flow of income</li> <li>• The relationship between withdrawals and injections</li> <li>• Equilibrium in the circular flow of income</li> </ul>   |
| <b>Measuring national income</b>                | The concept of national income as an actual measurement of the level of economic activity in a country.   | <ul style="list-style-type: none"> <li>• The Expenditure, Income and Output methods of calculating GDP.</li> <li>• Difficulties in measuring, interpreting and making comparisons.</li> <li>• Practical examples of how GDP figures are used in practice.</li> </ul> |
| <b>Consumption and saving</b>                   | Students should understand the types of consumption and saving, as well as the determinants of consumption and saving.  | <ul style="list-style-type: none"> <li>• The consumption and saving functions</li> <li>• Determinants of consumption and saving – practical examples</li> <li>• Average and marginal propensities to consume and to save.</li> </ul>                                 |
| <b>Investment</b>                               | Investment is the purchase of capital goods and differs from savings. An understanding of the determinants of investment, excluding the Accelerator theory, is necessary.   | <ul style="list-style-type: none"> <li>• Definition of investment.</li> <li>• Factors affecting planned investment and practical examples.</li> <li>• Marginal efficiency of capital.</li> </ul>   |
| <b>Government spending, exports and imports</b> | The government spending, exports and imports are an   | <ul style="list-style-type: none"> <li>• Reasons for government spending</li> </ul>  |

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|                           | important part of the total demand in the economy so students should have an understanding of these terms.  | <ul style="list-style-type: none"> <li>• Definition of Budget deficit and surplus</li> <li>• Definition of exports and imports</li> <li>• Factors influencing exports and imports</li> </ul>  |
| <b>Aggregate Demand</b>   | Students should understand what is Aggregate Demand including its graphical explanation. They should also understand its shifts and how the multiplier affects AD.                          | <ul style="list-style-type: none"> <li>• Explanation of <math>AD=C+I+G+X-M</math></li> <li>• The AD curve</li> <li>• Shifts in AD and their determinants</li> <li>• The multiplier</li> <li>• The multiplier and injections</li> <li>• The multiplier and government spending and taxation</li> </ul>   |
| <b>Aggregate Supply</b>   | The aggregate supply is the level of output in the whole economy at any given level of average prices. It may shift outwards or inwards. An appreciation of the SRAS and LRAS is necessary. | <ul style="list-style-type: none"> <li>• Definition of SRAS and graphical explanation</li> <li>• Determinants of SRAS shifts</li> <li>• Definition of LRAS and graphical explanation (both Classical and Keynesian)</li> <li>• Determinants of shifts in LRAS</li> </ul>  |
| <b>Equilibrium Output</b> | An understanding that the economy is in equilibrium where $AD=AS$   | <ul style="list-style-type: none"> <li>• Equilibrium in the short run</li> <li>• Equilibrium in the long run (Classical and Keynesian models)</li> <li>• Changes in the Price levels and output levels associated with changes in AD and AS</li> <li>• Application of AD and AS in real life</li> </ul>   |
| <b>Economic Growth</b>    | Students should be able to explain economic growth both in nominal and real terms. An understanding of how economic growth can be increased is also necessary.                              | <ul style="list-style-type: none"> <li>• Definition of economic growth</li> <li>• The business cycle and economic growth</li> <li>• The output gap</li> <li>• The production possibility curve and economic growth</li> <li>• Causes of economic growth.</li> <li>• Economic growth and standard of living (is it always true?) in practice</li> <li>• Other factors affecting the standard of living in practice</li> <li>• Arguments in favour and against</li> </ul> |

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|                                |   | economic growth.   |
| <b>Unemployment</b>            | Here the student will obtain an understanding of the meaning of unemployment as well as the causes of different types of unemployment together with the costs of unemployment   | <ul style="list-style-type: none"> <li>• Definition and measurement of unemployment</li> <li>• Types of unemployment</li> <li>• Costs of unemployment in practice</li> </ul>   |
| <b>Inflation</b>               | Students are expected to study inflation, its causes and its costs  | <ul style="list-style-type: none"> <li>• Definition of inflation and deflation</li> <li>• Measurement of inflation (RPI and HICP)</li> <li>• Causes of inflation</li> <li>• Costs of inflation and deflation</li> </ul>  |
| <b>The Balance of Payments</b> | The Balance of Payments accounts are split in the current account and in the capital and financial account. Students are only required to concentrate on the current account rather than the capital and financial account. | <ul style="list-style-type: none"> <li>• Definition of the balance of payments</li> <li>• Explanation of the current account</li> <li>• Deficits and surpluses in the current account</li> <li>• Causes of changes in the current account balance</li> <li>• Advantages and disadvantages of sustained surpluses and deficits in the current account</li> <li>• The difference between government deficit and balance of payments deficit</li> </ul> |
| <b>Fiscal Policy</b>           | Fiscal policy affects Aggregate Demand, Inflation, Unemployment, the Balance of Payments and Economic Growth. Students should be familiar with fiscal measures and how these can be applied to influence the economy.       | <ul style="list-style-type: none"> <li>• Definition of fiscal policy and the main components of fiscal policy.</li> <li>• Effects of fiscal policy on AD, inflation, unemployment, Balance of Payments and Economic Growth.</li> <li>• Fiscal policy and the multiplier</li> <li>• Fiscal policy and trade offs</li> </ul>   |
| <b>Supply side Policies</b>    | Students should have a good grasp of what are supply side policies and how these can be used to increase the average rate   | <ul style="list-style-type: none"> <li>• Definition of supply side policies</li> <li>• Supply side policies which</li> </ul>   |

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|   | of growth, reduce inflation and reduce unemployment.   | <p>affect the labour market</p> <ul style="list-style-type: none"> <li>• Supply side policies which affect the capital market</li> <li>• Supply side policies which affect the goods market</li> <li>• The effect of supply side policies on Aggregate Demand</li> <li>• How supply side policies work in practice</li> </ul>   |
| <b>Monetary Policy and the Central Bank</b> | Students should understand that changing the interest rate can influence the economy. They should be able to explain how the interest rate affects AD, Inflation, Unemployment, Economic Growth and the Current account of the Balance of Payments. It must be clear that monetary policy is an action by the Central Bank and students should get a good idea of the functions of the Central Bank in an economy. | <ul style="list-style-type: none"> <li>• Definition of money, monetary policy and the rate of interest</li> <li>• The three motives for demanding money (transactionary, speculative and precautionary)</li> <li>• Interest rate and AD</li> <li>• How interest rate can be used to control inflation, unemployment, economic growth and the current balance of the BOP.</li> <li>• Monetary policy and trade offs</li> <li>• The functions of the European Central Bank</li> </ul> |

**Suggested On-line Resources**

- [www.nso.gov.mt](http://www.nso.gov.mt)
- [www.centralbankmalta.org](http://www.centralbankmalta.org)
- [ec.europa.eu/eurostat](http://ec.europa.eu/eurostat)
- [www.oecd.org/](http://www.oecd.org/)
- <http://www.federalreserve.gov/>
- [www.imf.org/](http://www.imf.org/)
- [econ.worldbank.org/](http://econ.worldbank.org/)
- [www.nber.org/](http://www.nber.org/)
- [www.bankofengland.co.uk/statistics/](http://www.bankofengland.co.uk/statistics/)
- [www.ecb.int/](http://www.ecb.int/)