

UNIVERSITY OF MALTA

**SECONDARY EDUCATION CERTIFICATE
SEC**

ECONOMICS

May 2012

EXAMINERS' REPORT

**MATRICULATION AND SECONDARY EDUCATION
CERTIFICATE EXAMINATIONS BOARD**

SEC Economics May 2012 – Examiners’ Report

Statistics

Table 1: Candidates’ Grades in SEC Economics – May 2012

Grades	1	2	3	4	5	6	7	U	Absent	TOTAL
No. of candidates										
Option A	12	18	34	57	45	-	-	25	9	200
Option B	-	-	-	6	12	13	7	10	6	54
Total %	4.7	7.1	13.4	24.8	22.4	5.1	2.8	13.8	5.9	100

General comments

The Economics syllabus is aimed to develop an understanding of economic terminology and principles of basic economic theory. The examination paper is set to assess different learning abilities and questions not only test knowledge, but also skills of understanding, application and evaluation.

It is worrying to note that candidates do not read the rubric on the front cover of the examination paper. Particular attention must be paid to the instruction: Answer ANY FOUR questions in paper 1 or Answer FOUR QUESTIONS in Paper 2 – at least ONE from each section. A number of candidates failed to start a fresh page for each question, while others wrote in the marking margin, not leaving space for the examiner where to enter the marks. Some candidates disregarded the marks allotted to different parts of the question. Others did not write the number of the question they were answering and left examiners wondering which answer belonged to what question.

Certain answers required candidates to discuss and develop a balanced argument – a fact which was absent in a numerous number of scripts. Some candidates simply stated their own perception of the economic problem being tackled, without any reference whatsoever to economic concepts or theories. Simple mathematical calculations, such as addition of different costs or calculations of elasticities, also seemed to present a problem to some candidates. The absence of proper units of measurement in the mathematical questions was evident in many of the scripts. Particular attention must also be taken in the proper use of English and the spelling of economic terms. Some candidates did not spend enough time to understand what the question was asking, which resulted in having a lot of repetition or leaving parts of the question unanswered.

Candidates are to be encouraged to question economic concepts and apply them to current affairs. They are also to engage in a more interpretative manner such that they move from the knowledge base to the evaluation and application levels.

PAPER I

Question 1

This question dealt with elasticities. Most of the candidates were able to give the correct definition of cross elasticity and its measurement, yet a number of candidates gave the definition and measurement of price elasticity instead. However, when it came to the application of the theory behind cross elasticity, the majority of candidates were unable to interpret the meaning of the cross elasticity values associated with the different products, and were thus unable to apply the meaning of these with respect to the reduction in the price of coffee. Most candidates were unable to state the effect on the products in question following a reduction in the price of coffee. Again, when candidates were asked for the reason why values of elasticities were useful to suppliers and government, many candidates gave their own personal perception rather than apply economic theory.

Question 2

This question dealt with location and multinational businesses. This was well answered by the majority of the candidates. A number of candidates confused part (b) which asked for the advantages of being a multinational, with part (c) which required candidates to explain whether it was always beneficial for a country to have multinationals. In part (c) many candidates failed to give a balanced argument and focused only on the advantages to a country without mentioning any disadvantages. The last part of this question (d) required candidates to refer to MEPA and how this organisation affects the choice of location for a business. The majority of the candidates failed to answer this question correctly which suggests that economic theory is not encompassing the local scene.

Question 3

This question dealt with competition. Part (a) required candidates to mention the reasons why firms compete. This was answered well by most candidates. Part (b) required candidates to outline the effects of having more than one firm in business. Candidates were expected to mention the effect on price and quality as well as the effect that competition has on the economy. In part (c), candidates were expected to argue whether competition always favours consumers. Many answers were weak and superficial, failing to give balanced economic arguments to the question. Part (d) required candidates to apply the concept of supply and demand to competition. This required synoptic learning where candidates were asked to show by means of a supply and demand diagram, how the introduction of attractive packaging would affect the firm and also the other firms in the industry. Despite the importance of the concepts of demand and supply, many candidates failed to show the shift required and how the equilibrium would change. Furthermore, a number of candidates failed to label the components of the diagrams.

Question 4

This question dealt with population. Most candidates answered this question well. Part (a) required definitions of birth rate and death rate, and many candidates failed to mention that it is *per thousand* of the population per year. Part (b) required candidates to explain the growing

importance of education and health to Malta's population in light of the changes in the birth and death rates. Whereas the majority of candidates were able to outline the growing importance of education in respect to demographic changes, they were unable to answer appropriately with regards to the importance of health. Candidates were expected to identify and explain two economic problems which could result due to a change in the age structure in part (c). Good answers mentioned the effect on the dependency ratio and the effect on the working population as well as the burden on social services and the opportunity cost of pension payments. This part of the question could have been used to aid part (b) of this question. In part (d), candidates were asked to discuss two measures the government of Malta could use to overcome the problems associated with an increase in Malta's population. Most candidates answered this section well.

Question 5

This question dealt with the macro-economic aims of Governments. This was not a popular question with candidates, yet those who attempted it fared quite well. Part (a) required candidates to describe three such aims. Good answers described controlling inflation and unemployment as well as reducing the budget deficit. Part (b) asked candidates to outline and assess the different sources of government revenue. Tax was by far the most common answer. Some candidates failed to provide detailed explanation of how this revenue is sourced, (for example how value added tax is collected from the consumption of goods and services), was also necessary. Part (c) required candidates to identify and explain an advantage and a disadvantage of an increase in government expenditure on education. Most candidates answered this correctly. Part (d) required candidates to explain national debt and what its implications are. Very few candidates answered this correctly, with the majority confusing budget deficit with national debt.

Question 6

This question dealt with economic growth. Overall, weak responses were given to the different parts of the question. In part (a), many candidates simply stated that economic growth was the value of goods and services produced by a country. It was necessary to mention that growth referred to an *increase* in a country's annual output of goods and services over the previous economic period. Part (b) required candidates to discuss what has led to a decrease in growth in the euro-zone area. A number of candidates mentioned the unemployment problem without expressively tackling the root cause of it. Part (c) required candidates to mention the benefits of economic growth to the Chinese economy. Good answers necessitated the mention of improved standard of living, better social services and an increase in world trade. The costs of economic growth, such as social costs, were asked for in part (d). The majority of students who answered this question failed to mention opportunity cost and the depletion of non-replaceable resources.

PAPER IIA

Question 1

This question dealt with growth of firms. Part (a) required candidates to discuss the existence of small firms despite the advantages available to large firms. Firstly, it was clear that a number of candidates did not know the meaning of economies of scale. Secondly, many candidates relied on superficial knowledge without any reference to economic theory. On the other hand, some excellent answers provided contemporary examples to highlight the reasons for the existence of small firms. In part (b) some candidates confused internal with external economies of scale. Some good answers included ancillary services, skilled labour and infrastructure. Part (c) was asking for diseconomies of scale. Unfortunately, few candidates fared well in this section. Good answers necessitated a good definition of diseconomies of scale. Following this, candidates should have discussed management and labour diseconomies.

Question 2

This question dealt with mobility and production. Part (a) required the definition of occupational and geographical mobility of labour, as well as a discussion of the importance of each on labour. While most candidates gave good definitions, few were able to relate this to the second part of the question. In part (b), the majority of candidates were able to differentiate between working population and the population of a country. However, yet again, few were those who could give a correct composition of each. Some candidates simply stated that the working population refers to those “people who work”, without any reference to the age groups of those who were willing and able to work. Part (c) required candidates to explain the shift of employment from primary to the other sectors. Whereas many were able to state the causes of the shift, few were able to assess the effects.

Question 3

This question dealt with demand and supply. In part (a), although a substantial number were able to explain the likely effects on the price and quantity demanded if supplies of crude oil reduced, few candidates were able to draw the required diagram correctly or limited themselves to explaining how an equilibrium price is determined without tackling the issue of a reduction in global supplies of crude oil. Worse still, some illustrated this by an outward shift in the demand curve! Part (b) required candidates to refer to the law of demand. Candidates with a good grasp of the basic concepts of demand and supply found no difficulty in answering this question. Part (c) required candidates to discuss how a country could tackle the problem of diminishing supplies of non-replaceable resources. The majority of candidates answered this correctly by mentioning various alternative energy sources.

Question 4

This question dealt with costs and scale of production. Part (a) required candidates to assess the different types of costs and how these vary over a period of time. Most candidates were able to define different types of costs, yet very few were able to show how these varied and how the scale of production was effected. In part (b) candidates were required to explain

other aspects that are taken into consideration besides costs when deciding prices. Few candidates were able to do this. Excellent answers necessitated the discussion of the role of competition and the consumer, as well as the price mechanism and elasticity. Part (c) required candidates to explain how government intervention can be used to correct environmental externalities. A substantial number referred solely to taxes as the only way of reducing environmental externalities. Excellent answers necessitated the discussion of different incentives available to businesses to adopt environmentally friendly methods of production.

Question 5

This question dealt with money and banking. This was tackled by a majority of candidates however, those who attempted it showed a weak understanding and application of this topic. Part (a) required candidates to explain how money overcame the problems of the bartering system. Unfortunately the level of theoretical analysis was weak with many candidates failing to associate the disadvantages of bartering with the functions of money. When it came to part (b), few candidates were able to show the effect of an issue of bonds by the Central Bank on the money supply and the rate of interest. Good answers necessitated the fact that a bonds issue would decrease the money supply while the rate of interest would increase. The main reason for this was that candidates did not know the meaning of bonds. In most cases, the diagram was wrong. Part (c) required candidates to explain the effects on the Maltese economy if the Central bank decides to raise the base interest rate. Weak answers were produced overall, with very few producing excellent answers, mainly because candidates did not know what was meant by the base interest rate. Good answers necessitated a discussion of an increase in people's savings, and how this would affect aggregate demand. Additionally, candidates were expected to demonstrate that an increase in the base interest rate would also affect the price of borrowing which would decrease the demand for loans.

Question 6

This question dealt with inflation. The candidates who chose this question fared well. Part (a) required a definition of inflation and to describe the causes that bring about inflation. Most candidates answered this part well. Part (b) required candidates to apply the costs of inflation to consumer spending, saving and borrowing. Candidates were expected to state that savings depreciate while borrowers gain at the expense of lenders, as the debt value falls. They were also expected to discuss how consumers would also be receiving less for what is being paid, especially if consumers were fixed income earners.. Part (c) required candidates to discuss the actions that governments might take to control inflation. Most candidates relied on fiscal and monetary policy, while supply side policies were very rarely mentioned.

Question 7

This dealt with international trade. Part (a) required candidates to state the reasons for countries to engage in international trade. The candidates who answered this question generally gave good reasons such as to exploit comparative advantage and gain from specialisation. Part (b) required candidates to discuss the reasons for governments to impose barriers to trade. Some good reasons given were the protection of emerging markets, the avoidance of dumping by richer countries which flood markets with their own cheap goods, as in the case of Chinese imports, and to reduce a balance of payments deficit. In part (c)

candidates were required to describe the problems met by developing countries as they engaged in international trade. This necessitated candidates to describe how richer countries dictated world prices. A substantial number of candidates also discussed the reliance on only one or two primary goods as their main export.

Question 8

This question dealt with government expenditure and government macro-economic policies to stimulate productivity. Generally, there was a weak performance from the candidates who attempted this question. Answers to part (a) were mostly superficial without actual reference to economic jargon. Part (b) required a discussion of how fiscal policy reduces inequalities. It was clear that a number of candidates simply threw in an answer without allocating enough time to figure out a rational answer of how taxes can be used to be allocated to those who have lesser incomes, such as the unemployed or pensioners. Part (c) required candidates to discuss different government policies, apart from fiscal policy, to stimulate productivity in an economy. There were very weak answers given in this section, with only a few actually discussing monetary policy, or other supply-side policies that can be used to stimulate productivity. Excellent answers necessitated the mention of developing a proper infrastructure, improving human capital through training, providing incentives for women to return to work, as well as promoting small and medium sized businesses.

PAPER IIB

Question 1

This question dealt with demand and supply. In general, very few candidates gave correct answers to the different parts of this question. Some candidates simply stated that demand was 'how much people buy', while very few were able to distinguish correctly between a contraction and an extension of supply and show the movement in the supply curve. When it came to applying the theory of price mechanism, a substantial number did not know how the equilibrium price and quantity would change following an increase in the price of labour utilised in production, or a decrease in government subsidies. a. A large number of candidates failed to distinguish between the factors that determine demand for labour and factors that determine supply. Only a few candidates were able to correctly relate the price of labour and government subsidies to shifts in supply. It would have benefited candidates to illustrate their answers with a sketch of the shifts in supply. Again, few were able to outline the causes of an inward shift in the demand for electric kettles. Some mentioned the factors of demand without qualifying how these would change. Good answers necessitated the mention of a decrease in personal income, shifting to a cheaper substitute such as a gas kettle.

Question 2

This was a popular question, yet still, a substantial number were unable to distinguish clearly between fixed and variable costs, and furthermore, made the wrong classification. Very few took notice of the first line of the question, which prevented them from calculating the average product correctly. The definition for opportunity cost was answered correctly by most candidates but many limited themselves simply to the use of an example as a means of explaining the concept. Social cost was well defined with the majority of candidates giving text book examples such as pollution. Other issues could have been taken from the local

context, such as environmental degradation through urbanisation or over development, should also be used. A number of candidates were unable to realise that the firm was operating in the short run, due to the fact that fixed costs were present. The opening paragraph of the question also gave information which would have helped candidates answer this part of the question.

Question 3

The performance of candidates in this question was very weak. Most of the candidates relied on their own perceptions without any reference to economic theory. Most were unable to state how firms grow internally, despite the clue given in the following section of the question. It was evident that the functions of Malta Enterprise were not adequately covered as few candidates were able to give forms of assistance provided by Malta Enterprise to small firms. The reasons for the existence of small firms were poorly explained. Some good reasons that could have been stated, necessitated the mention of the size and proximity of the market, provision of a personal service, and that such small firms had limited capital to expand.

Question 4

On average, there was a good attempt by the candidates who chose this question. As in previous questions, definitions were not exact, and students relied on superficial knowledge to answer the different parts. The composition of the working population was generally well explained, although a number failed to mention the age of the working population. The majority were able to explain how an increase in the working population would affect the major production sectors. Some candidates confused the terms production and productivity. Some confused answers were given to explain the meaning of occupational mobility. Few candidates were able to explain how occupational mobility would benefit the working population.

Question 5

This was a popular question and candidates generally performed well in it. Most candidates were able to distinguish between money and the bartering system, as well as explain the different forms of money in today's world. The majority of candidates were able to give the correct advantages and disadvantages of holding money as an asset. However, few could demonstrate a good understanding of how raising the base rate of interest by the Central Bank of Malta would have on the money supply.

Question 6

This question was generally well answered by those who chose it. Most candidates gave a good definition of inflation and were able to distinguish between cost-push and demand-pull inflation. When it came to applying theory however, a number of candidates could not show that an increase in the price of raw materials would affect the prices of finished goods and services. This in turn affected the answer given in the next section, which asked candidates to show how aggregate demand of goods and services would change. Only a few made reference to a simple demand and supply sketch, which would have aided candidates to explain what the questions were after. A number of candidates relied solely on fiscal measures to control inflation and reduce unemployment. Very few referred to monetary and supply side policies that can be used to achieve these goals.

Question 7

This question tackled international trade. There was a weak performance on the whole. Yet again, many candidates relied on their own perceptions, without any reference to real economic concepts. Very few mentioned the comparative advantage principle as a reason for engaging in international trade. Most students were able to give examples of trade barriers. However, few were able to discuss the reasons for governments to impose barriers to trade. It was clear that many did not know the difference between free trade and a trade agreement. It was also surprising to see that very few candidates were able to analyse the advantages of free trade well, especially when we are living in an age where the EU stresses the economic benefits of free trade, and the fact that one of the reasons for Malta's entry into the EU was to benefit from free trade.

Question 8

Answers to this question were generally disappointing with few candidates demonstrating a thorough economic understanding of budgets and taxation. While most candidates were able to give good reasons as to why governments impose taxes, few were able to show how government expenditure could be used for both capital and consumer goods. Little understanding of fiscal policy was evident, and few were able to show how governments reduce a budget deficit. The majority of candidates who answered this question could not assess the economic effects of a cut in income tax on the availability of jobs, public expenditure or the rate of inflation. Yet again, candidates relied on superficial knowledge, without any reference to economic theory. It would have helped candidates if a simple diagram was used to illustrate how the price mechanism would work by the cause and effect under question.

**Chairperson
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