

**UNIVERSITY OF MALTA**

**THE MATRICULATION EXAMINATION**

**SEC LEVEL**

**ECONOMICS**

**MAY 2013**

**EXAMINERS' REPORT**

**MATRICULATION AND SECONDARY EDUCATION**

**CERTIFICATE EXAMINATIONS BOARD**

SEC ECONOMICS  
MAY 2013 SESSION  
EXAMINERS' REPORT

**Part 1: Statistics**

**Table 1: Distribution of the candidates' graded for Sec Economics May 2013.**

<b>GRADE</b>	<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>	<b>5</b>	<b>6</b>	<b>7</b>	<b>U</b>	<b>ABS</b>	<b>TOTAL</b>
<b>PAPER A</b>	<b>8</b>	<b>24</b>	<b>36</b>	<b>54</b>	<b>41</b>			<b>33</b>	<b>2</b>	<b>198</b>
<b>PAPER B</b>				<b>6</b>	<b>13</b>	<b>7</b>	<b>5</b>	<b>12</b>	<b>6</b>	<b>49</b>
<b>TOTAL</b>	<b>8</b>	<b>24</b>	<b>36</b>	<b>60</b>	<b>54</b>	<b>7</b>	<b>5</b>	<b>45</b>	<b>8</b>	<b>247</b>
<b>% OF TOTAL</b>	<b>3.2</b>	<b>9.7</b>	<b>14.6</b>	<b>24.3</b>	<b>21.9</b>	<b>2.8</b>	<b>2.0</b>	<b>18.2</b>	<b>3.2</b>	<b>100.0</b>

**General Remarks**

The paper provided opportunities for all candidates to demonstrate their economic knowledge and its application. Overall, the candidates fared well, with those students sitting for paper A having a higher level than those sitting for paper B. At the top end, there were some excellent scripts from well-prepared candidates who used current examples to substantiate their answers. Although the majority of candidates in both papers preferred to answer micro economics' questions, those who opted for the macro questions fared better.

All questions have a varying degree of difficulty, assessing different learning abilities such as recall, skills of understanding, application and evaluation. Despite previous reports' recommendations, a number of candidates failed to read the instructions 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.

Candidates are advised to use economic terminology where appropriate and are also strongly advised to use models whenever possible. There is a noticeable gap between those who solely use jargon, or their own words, and those who are able to apply economics terms to accompany their analytical points and to explain them in detail. Definitions of terms need to be learnt as this can save valuable time as well as earning maximum marks.

It was observed that generally, students lacked information about different entities in Malta, such as the Malta Stock Exchange, the Malta Financial Services Authority as well as the Central Bank of Malta. Such entities and their respective websites are clearly stated in the SEC syllabus and teachers should emphasise their importance to students.

The proper use of English is found lacking. A number of candidates fail to understand the requirements of the question, resulting in them going out of point. Careful attention must be paid to the wording of the questions. Candidates are thus encouraged to read the questions thoroughly, and underline key words in the question before answering.

It would be helpful for those students whose handwriting is rather difficult to read, to skip a line when writing their answers as this would make their work more easily legible.

Candidates are asked to pay close attention to the marks being allocated to the questions. More marks signify that a more detailed answer is required.

## Paper 1

### Question 1

This dealt with production possibility curves and opportunity cost and was the most popular question with students. Overall, the level of the answers given was satisfactory.

- a. This question was generally well answered. Axes for the production possibility curve diagram were almost always correctly labelled, and the production possibility boundary was well drawn.
- b. Most candidates were able to cite the opportunity cost demonstrating that they are able to understand that the opportunity cost is a movement along the production possibility curve.
- c. A good explanation of the concept of Opportunity Cost was managed by most students but many faltered when they had to explain why this concept is important in economics. Candidates were expected to point out that opportunity cost aids one in making the right decision regarding the efficient allocation of resources.
- d. (i) Here again, candidates generally managed the mechanics of the question and identified the required point well, but failed to justify their choice as that bundle which revealed 'efficient production'. Instead candidates simply stated that the chosen bundle (in most cases (50,50) was good for the economy.  
(ii) The effect of an increase in technology was not shown graphically by some candidates.
- e. Relatively few candidates were able to access full marks on this part of the question failing to identify the consequences of the situation being put forward. Many candidates restricted their answer to a lower standard of living if only capital goods were produced.

### Question 2

This examined the concepts of demand and supply and the establishment of an equilibrium price. It was the second most attempted question in this paper and marks scored were very satisfactory.

- a. Many candidates answered this question appropriately although some omitted any reference to the 'ability' to pay for the good and only spoke of the 'willingness' of consumers to pay for the product.
- b. The term *perfectly inelastic supply* was well defined in most cases. However, the reply to the second part of the question was wanting. Many candidates failed to explain why it is impossible to create a supply of property in the short term.
- c. This question asked students to '*List* three factors' and yet a substantial number of students went on to also *explain* the factors which had been identified. Candidates must understand that in so doing no additional marks are gained. Most candidates identified the correct factors.
- d. This question was well answered with the majority of the candidates being able to offer a clear recognisable explanation of how an equilibrium market is determined and to explain why the Maltese government felt it necessary to fix a ceiling rent rate below equilibrium price to protect tenants from high rent rates.
- e. This question was well answered with most candidates successfully identifying the creation of a shortage due to landlords being induced to reduce the supply of rental accommodation accompanied by an increase in the demand for property.

SEC ECONOMICS  
MAY 2013 SESSION  
EXAMINERS' REPORT

**Question 3**

This question dealt with competition and ranked the third most popular question by candidates. Marks in this question were generally on the lower end of the scale indicating that this question was a challenging one.

- a. Candidates found difficulty when attempting to answer this question and very few depicted Apple as a price maker. Candidates are expected to know that a monopoly controls 25% or more of market sales.
- b. Most candidates managed this question satisfactorily.
- c. This part of the question required students to give possible reasons for the increase in Samsung's growth over the period. Candidates tended to refer to text book reasons rather than apply their common sense knowledge to contemporary situations. Teachers are encouraged to refer to current examples when explaining economic concepts.
- d. Most candidates managed to answer this question well although more emphasis should have been made to the importance of *efficiency*.
- e. Overall this question was well answered although generally, students do not really distinguish between a unique product and a differentiated one and use the more general term *non-homogeneous* for the goods produced by a monopoly. Caution needs to be applied to a better understanding of the terminology.

**Question 4**

This question examined financial intermediaries was the least popular of all the questions in this paper. It was observed that many students were not exposed to the functions of the different financial institutions that exist in Malta.

- a. It was rather disappointing to note how students, generally managed to identify the importance of banks on a personal level, but failed to associate this relevance to the economy, as was indeed required in the question. Good answers noted the benefits that are gained by business due to the ability to buy on credit thus affecting economic development.
- b. This question required candidates to make reference to the bank's reserve ratio, however, some candidates answered with reference to the provision of collaterals and securities by borrowers.
- c. This question was very poorly answered and it was very disappointing to note how several students suffered to explain the role of an important institution such as the Malta Stock Exchange.
- d. Many candidates did not fare well in this question as the answers which were presented were either vague or inappropriate. Suffice to say that a large proportion of the candidates mentioned that the Malta Financial Services Authority is entrusted with the control of the prices of goods, or with the control of the quality of the goods and services rendered by the business. These and such answers were not accepted. Candidates are encouraged to revise this section of the syllabus carefully and refer to the indicated websites thereon.
- e. Several candidates failed to understand this question. Students were expected to refer to the functions of the Central Bank of Malta in relation to the introduction of the Euro. Reference to currency exchange was not accepted in this case.

SEC ECONOMICS  
MAY 2013 SESSION  
EXAMINERS' REPORT

**Question 5**

This question examined income and expenditure of government and was not a very popular question with candidates. However those who did attempt this question managed it successfully.

- a. A well answered question which was based on knowledge and required a straightforward definition of capital and current expenditure.
- b. There were some misconceptions around the difference between direct and indirect taxation here. Simply writing "*direct taxes are taken directly*" and "*indirect taxes are taken indirectly*" is not acceptable. Good answers indicated that direct taxes are on income and wealth and indirect taxes are on expenditure of goods and services.
- c. A well answered question and few students found difficulty in calculated the budget surplus or deficit for 2010 and 2011.
- d. Some candidates inappropriately referred to the 'budget deficit' as the *loss* generated by a country, whilst others confused the budgeted deficit with the current account deficit.
- e. Answers to this question were generally acceptable although not well explained. Good answers required candidates to demonstrate how deficits contribute to having more money in the economy and state how this is likely to cause increased spending on goods and services, increasing employment, thus improving the standard of living.

**Question 6**

This question tackled economic development and ranked fourth in order of preference by candidates. The majority of candidates gave good answers to this question.

- a. This part of the question required three characteristics of developing countries and was well answered. Candidates gave a variety of answers ranging from low level of economic development, lack of healthcare and educational provisions, shortage of clean water, poor infrastructure, low life expectancy to high death rates and high birth rates.
- b. Candidates were able to give appropriate reasons to explain why developing countries lack access to appropriate technology. Lack of capital proved to be the most common reason. Some very good answers referred to the opportunity cost principle where more is spent on consumer goods rather than on capital goods.
- c. The majority of students could explain how birth rates and death rates change as economic development takes place.
- d. Candidates were expected to refer to actions by international organisations such as UN, WTO, World Bank etc. Candidates were penalized if no reference was made. Few candidates gained full marks in this part of the question.
- e. This question was generally well answered by candidates. Although some candidates made a concerted effort to explain the equality of women in today's society, they failed to emphasise the economic implications on the economy, such as increases GDP and Economic Growth as a result of increased female participation in the labour market. It is rather worrying how the majority of candidates only limited themselves to occupations such as teaching and hairdressing when giving examples of female involvement in the labour market.

**Paper 2A**

**Question 1**

- a. Most candidates missed the main point of this question, that is how the market operates through the price mechanism and focused instead on issues such as how to increase productive 'efficiency' through 'technological progress' or 'economies of scale'. Others discussed international trade, given that terms such as 'trade barriers' or a 'global market place' were used in the introduction to the question. This brings to light the difficulty most candidates have of identifying the key words of a question. Only a few focused on the fundamental economic issue of 'scarcity' and related this concept to the price mechanism and how the interaction of market demand and supply allocates resources.

SEC ECONOMICS  
MAY 2013 SESSION  
EXAMINERS' REPORT

- b. Most candidates correctly defined and explained the concept of price elasticity of demand and gave the right reasons why tourism is relatively price elastic. However a substantial number went completely overboard when, while correctly considering tourism as a very important income earner for Malta, they incorrectly concluded that for this reason, tourism is price inelastic. Some candidates even focused on job creation and the need for more government investment in this sector. Once again, the introduction to the question and the words, "Tourism is one of Malta's most important industries" must have distracted the candidates from the key words of the question.
- c. Some candidates correctly answered this question citing environmental degradation, noise pollution, over development, and even cultural dilution, as examples of negative externalities. Very few however, gave any attention to positive externalities. This indicates the general, but incorrect, social attitude in Malta that the environment and hence externalities, are mainly associated with building permits, general lack of cleanliness and pollution.

**Question 2**

- a. Most candidates seem to confuse the short run with the long run, limiting the difference between the two concepts simply to a period of time and failed to relate this to the availability of the factors of production.
- b. This confusion was carried forward to this part of the question too, with most candidates incorrectly explaining the U-shape curve of the short run production function through 'economies of scale', a Long run concept. Few candidates focused on the law of Diminishing Marginal Returns as the correct explanation for the U-shaped short run average cost curves. Those who understood the question did very well, even drafting good and relevant diagrams in order to substantiate their answers.
- c. Most candidates had a good grasp of what the tertiary sector of the economy means, it being the largest contributor to job creation on the island. But when it came to explaining why growth in this sector is beneficial to the Maltese economy, most answers rambled about the importance of government intervention, including nationalisation and public expenditure, as a means of creating jobs. Instead they should have focused on the ability of this services sector, particularly that within the private sector, to create more wealth when compared to the primary and secondary sectors. Indeed, it was quite refreshing to read the answers of a few candidates who even made use of the concepts of 'value added' and 'occupational mobility' when discussing this issue.

**Question 3**

- a. Question 3 was tackled by a majority of candidates and most provided a good explanation, outlining the main differences between the types of partnerships found in Maltese commercial legislation.
- b. However, more was expected when reading answers describing the role of 'Malta Enterprise' in the Maltese economy. Most answers only provided a hazy description of this role, with the focal point invariably being the provision of government grants, subsidies and hand-outs to local businesses in order to help and encourage them to remain in business and create more jobs. More should be done to encourage students to learn about and appreciate the role of local institutions in all aspects of the economy.
- c. Most answers regarding the sources of finance for Maltese business focused on short term bank loans such as overdrafts and on government subsidies and grants. However, a substantial number went on to explain how firms may raise capital through internal sources such as the capitalisation of reserves and by issuing shares or bonds to finance their long term capital needs.

SEC ECONOMICS  
MAY 2013 SESSION  
EXAMINERS' REPORT

**Question 4**

- a. As in the case of question one, most candidates failed to focus on the key point of the question, namely the laissez-faire theory that competition induces firms to make the best possible use of scarce resources. This theory is based on the perfectly competitive market model that assumes that firms are price takers, and to maximise profits they produce outputs at the lowest possible cost, while at the same time allowing consumers to maximise their satisfaction by providing them with value for money.
- b. The significance of barriers to entry into the market as a way of maintaining monopoly power was well understood, with most candidates citing predatory pricing, brand proliferation and large scale production as examples.
- c. The concept of consumer protection as a means of ensuring fair competition was however poorly discussed. Several answers only focused on Government intervention, mainly through the use of price ceilings and also nationalisation as a means of ensuring consumer protection. Many candidates cited well-known public corporations in Malta, that by their very existence as public entities 'must' have the public interest as their *raison d'être*! Very few seemed to be aware of the fact that legislation in Malta such as the Consumer Affairs Act, the Trade Descriptions Act, the Doorstep Contracts Act and the Product Safety Act, are all aimed to ensure fair competition and provide consumer protection.

**Question 5**

- a. Most candidates adequately answered this question, drawing and explaining the real and money flows of income as well as leakages and injections.
- b. Most candidates satisfactorily explained the interrelationship between production and household income in an economy. The employment of factor inputs, namely land, labour, capital and entrepreneurship by firms are used in order to produce goods and services and this creates income for households, namely rent, wages and salaries, interest and profits. As both output and income make up two equivalent sectors of the income/output flow, both sectors separately represents a country's gross domestic product (GDP). Hence both are equal to each other.
- c. This part of the question was also generally well answered with some candidates even distinguishing the accounting problems in calculating GDP, such as double counting issues or data collation problems related to the black economy and undeclared incomes, as well as problems related to interpreting the accounts. The latter focuses on distinguishing between national output that increases a country's welfare such as health and education, from output that merely increases a population's standard of living such as the amount of cars per capita. Issues related to income distribution, subsistence production, DIY work, as well as domestic house-keeping by house wives were also tackled.
- d. However a substantial number of candidates focused almost entirely on the black economy and on undeclared incomes, excluding other important issues. Unnecessarily, they even went on to tackle the problem that this generates on government revenue and social welfare policies. Of course, social welfare is based on transfer payments and as such should not, and indeed is not, included in national income accounting.

**Question 6**

This question proved to be very popular with candidates. Unfortunately however, most answers were based on subjective *value judgements* and *street-level* knowledge, rather than on basic academic analysis. Most candidates failed to explain that unemployment issues have to be discussed both from a supply of labour and also from a demand for labour point of view. The labour market, like any market is made up of demand and supply; and a surplus, in this case unemployment, occurs when supply is greater than demand. This results in market disequilibrium. Reducing unemployment therefore entails the use of economic policies that would restore labour market equilibrium at higher levels of national output or GDP.

SEC ECONOMICS  
MAY 2013 SESSION  
EXAMINERS' REPORT

- a. Even the concept of full employment was poorly explained, with many candidates stating that full employment occurs when all those who are able to work, do work. Hence no unemployment reflects full employment. This is not correct. Full employment signifies the efficient allocation of available labour resources within an economy at a point in time. Indeed, a 0 % rate of unemployment can never be attained because, at best, there would always be some level of residual unemployment. Some of the candidates that correctly answered this question even explained that an economy would always have a natural rate of unemployment (NAIRU).
- b. The concept of hidden employment was on the other hand well understood with most candidates citing tax evasion and the strain on social security benefits, as the main problems resulting from this issue. Only a few, however, went on to state that hidden unemployment would lead to an under-estimation of a country's GDP figures.
- c. Rather than focusing on ways how the government may reduce unemployment using such policies as expansionary fiscal policy or monetary policy in order to generate more demand for goods and services and thus create more employment, most candidates diverged into policies that increase labour supply. Others rambled about the importance of reducing unemployment benefits, or of nationalisation and the setting up of public corporations in order to create jobs. Few were the candidates who emphasised the importance of increasing labour productivity through the long term investment in education and technology for example, and thus increasing the demand for labour. Encouraging more capital investment through lower interest rates, tax breaks or other business incentives such as the participation in international trade fairs that help to increase exports, a very important role of Malta Enterprise, are further significant ways of reducing unemployment.

**Question 7**

- a. Most candidates have a good understanding of the balance of payments and its components, namely the current account, the capital account and the financial account. Most also correctly explained how an increase in real income would adversely affect the current account, as an increase in imports relative to exports would lead to a deficit. A significant number also showed how the capital and financial accounts would be affected.
- b. This part of the question was also generally answered correctly but most of the answers were limited to citing higher imports in relation to exports as the major cause of a balance of payments deficit. Only a few also mentioned economic growth, or Maltese capital investment abroad relative to local foreign investment. Other important factors such as a decline in export competitiveness, exchange rate changes, domestic inflation or economic recessions abroad, were almost completely ignored.
- c. Once again, when it comes to general policy measures that are meant to mitigate some economic problem or other, candidates immediately focus on direct government intervention. When discussing policies that are meant to reduce balance of payments deficits, most candidates referred to trade tariffs, quotas and outright government import bans. In an age when economic theory and international organisations such as the WTO, stress the economic benefits of free trade, and the fact that Malta's entry into the EU specifically prohibits their use, it is surprising that most candidates still subscribe to such tools. Measures such as fiscal policy and supply-side policies that would enhance our competitiveness, such as long term investments in education, technology and infrastructure, should be at the centre of any discussion on balance of payments issues.

SEC ECONOMICS  
MAY 2013 SESSION  
EXAMINERS' REPORT

**Question 8**

- a. While most candidates were well aware of what the Eurozone is, a substantial number confused Malta's entry into the Eurozone area with joining the EU. Thus several answers diverged into discussing the benefits of joining the EU and missed the point of the question. Most of the candidates that successfully answered this question focused mainly on the benefits, namely; how Malta's adoption of the euro has facilitated trading transactions and travelling abroad. But few candidates focused on other economic benefits such as the greater mobility of capital and the likelihood that this would increase investment in the local economy. Very few referred to economic integration, in addition to monetary union, as an essential feature of adopting the euro. Those who attempted to tackle the drawbacks, focused mainly on the Central Bank's loss of sovereignty in relation to the ECB, and hence its inability to exercise its own domestic monetary policy. Some referred to the loss of exchange rate manipulation when adjusting balance of payments disequilibria, or to the domino effect that may come about when one country's economic ills may adversely influence other countries in the Eurozone.
- b. This question refers to the economic convergence criteria that have to be fulfilled in order for an EU member to be allowed to join the Eurozone. Those students who successfully answered the previous question were generally also successful in answering this one too.
- c. Similarly, this question was generally also answered correctly with most students also working out numerical examples in order to show the effects of a depreciation in the euro when compared to sterling.

**Paper 2B**

**Question 1**

This question dealt with production and the law of diminishing returns. Half the candidates sitting for paper B answered this question.

- a. While most candidates could define Total Product, very few candidates could distinguish between Average Product and Marginal Product.
- b. Only a few candidates were able to give the total output maximised. It was evident that many candidates could not relate output per worker to average product. It would have benefitted candidates to refer to the diagram given in the question.
- c. The definition for law of diminishing returns was well answered by the majority of candidates. However the application of the theory to the second part of the question left much to be desired.
- d. Those candidates who answered parts B and C of this question correctly, answered this part of the question well.
- e. Few candidates could explain how the negative effects of the law of Diminishing Returns may be overcome in the long run through economies of scale.

**Question 2**

This question examined break-even costs and revenues as well as competition. It was a popular question and the majority of answers were satisfactory.

- a. Very few candidates could distinguish between marginal and average revenue.
- b. Most candidates calculated the price as being the average revenue correctly.
- c. (i) The majority of candidates correctly gave the breakeven point as being the point where revenue equals costs.
- d. (ii) The distinction between fixed and variable costs was correctly given by the majority of the candidates.
- e. Most candidates identified different ways by which monopolies prevented competition. Good answers included (i) control the price (ii) control the supply (iii) investment in research and development, and (iv) economies of scale.

SEC ECONOMICS  
MAY 2013 SESSION  
EXAMINERS' REPORT

- f. This was weakly answered overall as a number of candidates failed to show how monopolies may be advantageous to consumers. Among the possible answers, candidates mentioned how a monopoly's economies of scale may bring about lower prices and how investment in research and development results in innovative and higher quality products.

### Question 3

This question dealt with different types of businesses and was the most popular question of this paper. It was generally well answered by the candidates.

- a. Most candidates correctly explained the difference between Partnerships and Limited Liability Companies. Good answers included: ownership and control, concept of limited liability, transferability of shares, legal status, finance and growth and distribution of profit.
- b. It was evident that most candidates had not covered the functions of Malta Enterprise as few candidates were able to show how Malta Enterprise can help businesses set up in Malta.
- c. Most were able to describe the sources of finance such as ploughing back profit and owner's capital.
- d. Responses to this question were generally weak. Candidates restricted their answer to simply stating 'government freeing up resources'. Some good answers that could have been given could have included improved efficiency, lack of political interference, and increased competition.

### Question 4

This question tackled market forces and elasticities and was another popular question. However, there was a weak performance on the whole.

- a. This was well answered and did not pose problems for candidates. Some good answers included (i) favourable weather and climate; (ii) beaches and attractive places of interest; (iii) historical importance; (iv) competitive price; (v) language; (vi) culture; and (vii) kind disposition of the Maltese people.
- b. Many candidates relied on their own perceptions without any reference to economic terminology, when it came to explain price elasticity in relation to vacation. Candidates were expected to explain how the availability of close substitutes and the proportion of income spent, made tourism price elastic.
- c. As in previous question, students relied on superficial knowledge to apply the concept of demand elasticity, such as price, income or cross elasticity with respect to decision making and planning to an entrepreneur.
- d. Very few candidates were able to answer this part of the question by correctly stating the price elasticity of supply of hotel rooms would be zero in the short term.
- e. Again, students refrained from using the correct economic terms which resulted in a weak attempt overall. Candidates should have discussed the external costs of tourism as well as the opportunity cost of building more hotels.

### Question 5

Very few candidates attempted this question which examined calculation of National Income. Those who did, showed a weak understanding and application of this topic.

- a. While the definitions for Gross Domestic Product, Gross National Product and Net National Product can be easily found in economic textbooks, it is worrying to see that a number of candidates are still unable to correctly define basic economic terms and correctly distinguish between the three.
- b. A considerable number of candidates could not calculate basic GDP calculations. This is a clear case of the candidates' inability to grasp the basic concept of this topic as they could not apply the theory.
- c. This could only be correctly answered if the answer to part B of this question was correct. Candidates are expected to know how to find the rate of change by using percentages.

SEC ECONOMICS  
MAY 2013 SESSION  
EXAMINERS' REPORT

- d. Again, this required candidates to refer to part C. Candidates were expected to demonstrate that GNP had increased by 4.6% over the previous year.
- e. A large number of candidates failed to apply rational economic theory and relied on mistaken personal perceptions in answering this part of the question. Good answers should have included (i) an increase in the available amount of resources in the economy (ii) more efficient methods of production, over time, the same factors of production can produce more output (iii) capital stock, including buildings and machines increase, and (iv) change in employment of the given resources available for production.

### Question 6

This question tackled labour and unemployment. It was a popular question and the majority of answers were satisfactory.

- a. While most candidates answered correctly, there are still some candidates who did not state that wages are the price of labour.
- b. Many candidates failed to draw the required diagram correctly, or limited themselves to explaining how an equilibrium price is determined without reference to the price of labour.
- c. The level of theoretical analysis was weak with many candidates failing to associate the demand for labour with a firm's willingness to produce more or less depending on the demand of goods and services by consumers. Few explained how as more goods and services are demanded, the more the demand for labour is likely to be.
- d. Most candidates were able to give the correct distinction between frictional and general unemployment.
- e. A number of candidates were able to give correct costs of unemployment. Some good answers correctly differentiated between costs to the unemployed, to the government and to the economy. These included loss of earnings, loss of skills, demotivation, stress and health problems to the unemployed, and costs to the government such as increased government spending through unemployment benefits, increased government borrowing, and lost output to the economy, inefficient use of resources, and lower GDP for the economy.

### Question 7

This question examined balance of payments principles and applications. It was attempted by half the candidates; however it was a weak performance on the whole.

- a. Most candidates gave vague definitions of balance of payments and restricted their answer to the 'imports and exports of goods'.
- b. A large number of candidates failed to distinguish between current account and capital account in a balance of payments.
- c. This part of the question entailed the application of the concept of this topic. Many could not correctly classify the transaction to the respective capital and current account.
- d. Yet again, theoretical application was weak and most candidates could not state the effect on the capital or current account of the balance of payments for each statement.
- e. Most candidates were not aware that the balance of payments should always be in equilibrium. Furthermore, they could not state why the balance of payments always balances.

### Question 8

This was not a popular question and those who answered it failed to demonstrate the knowledge and application of international economics theory. This is disappointing especially due to the fact that it is a widely discussed topic on media, and is also covered in economics textbooks.

- a. Few candidates could give the correct definition of a trading bloc.
- b. Candidates restricted their answer to having free trade with no levies, as well as having a common currency. Candidates could have included other reasons such as (i) having a larger market access and trade creation; (ii) economies of scale (iii) job creation due to increased trade between member countries, and (iv) protection from outside the bloc.

SEC ECONOMICS  
MAY 2013 SESSION  
EXAMINERS' REPORT

- c. Most candidates gave good answers to this part of the question. The most popular reason cited by candidates was that there were no transaction costs. Candidates could have also mentioned that having the Euro results in price transparency as well as eliminating of exchange rate uncertainty.
- d. While candidates could state the benefits of having the Euro, very few could mention the limitations of adopting this currency. Candidates were expected to know that having the Euro meant that the country owes services to the EU and together with the other countries in the EU, becomes collectively responsible for EU action. Other possible answers could have included the fact that if there is an economic problem in another Eurozone country, then it will affect that country as well.
- e. Most candidates did not know the functions of the European Central Bank and were not aware that the ECB was responsible for setting and implementing the monetary policy within the Eurozone.

**Chairperson**

**Examiners' Panel 2013**