

**UNIVERSITY OF MALTA**  
**SEC SECONDARY EDUCATION CERTIFICATE**

**ECONOMICS**

**May 2007**

**EXAMINERS' REPORT\***

**MATRICULATION AND SECONDARY EDUCATION  
CERTIFICATE EXAMINATIONS' BOARD**

**\*[NOTE: The following is a summary of the examiners' full report.  
The original can be consulted at the Matsec Office.]**

**SEC ECONOMICS  
May 2007 Session  
Examiner's Report**

**PART ONE**

***1.1 Statistical Information***

**Table 1: Distribution of grades for SEC Economics May 2007 session**

<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>I+IIA</b>	7	17	27	46	60			54	7	218
<b>I+IIB</b>				9	23	29	25	49	12	147
<b>Total</b>	7	17	27	55	83	29	25	103	19	365
<b>%</b>	1.92	4.66	7.40	15.07	22.74	7.94	6.85	28.22	5.20	100.00

It is observed that, when compared with last year, the number of candidates who sat for SEC Economics declined from 441 to 365, i.e. by 76. There were 37 less 'A' candidates and 9 less 'B' candidates. This year's proportion of 'A' candidates is marginally lower than last year's, 59.7% against 61.7%. The number of absentees was higher than last year's: 19 against 14

***1.2 Objectives***

The objectives of the three papers set were to:

- (a) test candidates' basic knowledge in macro and microeconomic concepts;
- (b) ensure that candidates can correctly interpret and apply these concepts;
- (c) express this knowledge in logical and rational statements, preferably employing graphical representations; and
- (d) assess candidates' interest in local and international economic problems.

***1.3 General Comment***

The SEC Board of Examiners notes that the number of candidates who sat for this year's Economics examination declined once again. As the national economy, particularly the entry into the EU and Malta's application to join the eurozone have been in the news for a prolonged time it was thought that such an occurrence would attract a wider demand for the subject so that students could acquire a deeper knowledge of what is being said and written in the media. That it did not does not augur well for the well-being of the country, the teaching profession and the present generation. A basic knowledge of economics is considered to be essential even on an individual basis.

The members of the Board are of the opinion that the teaching and learning of economics contribute to a better understanding of the way national economic problems evolve and that there are different approaches to their solutions. As major news items, both local and international, are inundated with economic material, modern people should have a thorough understanding of the basic principles underlying economic theory and how the market mechanism works. These ideas were incorporated in the papers.

***1.4 Board's Recommendations***

Candidates' performance at the examination enhances the Board's opinion that there needs to be a reassessment and a re-evaluation of how the subject is tackled and that students are not fully aware of the importance of economics – they should be 'attracted' to its knowledge.

It has been observed that a number of "weaker" students did much better in Paper II and the question arises whether these "weaker" students are being correctly advised to which paper to take up. It may either indicate that candidates themselves are not endowed with enough self-confidence to fully test their abilities or else they just want to ensure that they will certainly obtain a grade 4.

## **PART TWO**

### ***2.1 General Remarks***

- (a) Given that the subject of economics is mostly taught through logic and rationality, the examiners discovered that, generally, very few candidates illustrated any economic sense and their answers were extremely brief. A relatively high percentage of the answers were made up of a few words with a considerable number submitting one word answers. Quite surprisingly, the 'B' candidates showed a marked improvement in answering in complete sentences.
- (b) After five years in the Secondary School, examiners strongly hold that there is ample time to improve candidates' handwriting and spelling skills; once again, illegible handwriting was a major issue and a cause of concern.
- (c) Observation skills were manifestly absent. In addition, candidates failed to copy correctly words, e.g. government, business, deficit, etc. which appeared in the question. Candidates failed to read properly the instructions that featured on the first page of the examination paper. Starting a new question on a new page was the exception rather than the rule.
- (d) An economics examination requires a good command and application of 'economic jargon', diagrams and graphical representation of basic economic concepts. There were a considerable number of cases where candidates either did not label the axes or inverted their standard and accepted names.
- (e) Practical examples of economic activity were scarce. To the examiners this implied that candidates rely too much on textbooks, with very little exposure and illustrations from the domestic or international economy. Such examples make the learning of economics more interesting.
- (f) It is important that students are reminded that macro-economics is about an industry not the firm, about the government not the manager of a business, about the general level of prices, about aggregate output and not the demand and supply of a product.
- (g) Many candidates mirrored an archaic indoctrination that 'Government subsidies' are some form of exclusive formula to be taken for granted and used whenever possible in an economy. Candidates need to know better the EU Competition Policy, now that Malta is an EU member. Basic economic information must be known.

## **PART THREE**

### ***3.1 Reactions on candidates' answers: Paper I***

#### **3.1.1 Question 1**

This was the most popular question for 'A' candidates; it was very popular with 'B' candidates too. Generally, it was answered correctly and the majority of candidates were awarded high marks. Notwithstanding this, there were candidates who failed to grasp the inverse relationship that exists in the diagram (part b); 1(e), too, presented difficulty to a considerable number of candidates.

#### **3.1.2 Question 2**

This question was based on graphical representation. It proved that many candidates could not answer (b) and many of them could not draw the graphs pertaining to (c). The last part of the question proved that candidates could explain the practical application of how businessmen relate price elasticity of demand.

#### **3.1.3 Question 3**

This question was popular amongst candidates. Many of them succeeded in arriving at the average total cost, average variable cost and marginal cost (part a) and the average fixed cost (part b); but their graphical representation did not equal their mathematical prowess. In fact, a considerable number of them failed in parts (d) and (e) to interpret and explain the graphs.

#### **3.1.4 Question 4**

The question dealt with economic development and growth. Though many of the candidates were able to distinguish between developed and developing countries and to define economic growth, yet many failed to summarise its causes and were unable to give examples of benefits and costs. Examiners thought that part (d) was actually a gift question but from the scripts they had to change their idea.

### **3.1.5 Question 5**

It was expected that candidates were familiar with the euro and eurozone after both were in the news for prolonged periods of time. But in their answers to this question (except for part (a) which dealt with a simple conversion) candidates did not fare too well. The weak areas were in candidates' inability to specify advantages and disadvantages in joining the eurozone, the relationship between exchange rates and the balance of payments.

### **3.1.6 Question 6**

The last question of this paper focused on the distinction between public debt, budget deficit standard of living and the black economy. A good proportion of the candidates fared well in the first part of the question but a considerable number of them could not explain the three measures employed to calculate a country's standard of living. The greatest difficulty they faced was when they were asked whether it was possible to quantify the size of the black economy and whether government could control it.

## ***3.2 Reactions on candidates' answers: Paper IIA***

### **3.2.1 Question 1**

- (a) In the majority of cases, everyone argued that in a market system, profits are the main stimulant to entrepreneurs to take risks and produce goods and services. However, few were the candidates who were able to give the reasons why. Only 102 candidates (just about half the total number of candidates) came close to argue that profits result out of the ability to correctly identify the type of demand for your product, as well as the ability to manage production efficiently. No one mentioned that (as a general rule) in economics we assume maximisation of profit.
- (b) Many students forgot to mention the benefits of information to the consumer. Or else they went completely out of point discussing the importance of 'nutritional information', ingredients and instructions on the packaging of a product. At least, the fact that producers rely on high quality information to enable them to find ways of organising production in the most efficient way was a very common answer.
- (c) There were some very good answers to this section, and although not always very clearly explained, many argued that the Price in a Market system will only act as an accurate signal to consumers and producers if it properly reflects the costs and benefits of production and consumption. Few went on to argue that ideally this should also imply the inclusion of +/- externalities in the prices quoted in the market and this justifies government intervention in a more mixed economic system.
- (d) There was a worrying number of candidates who unanimously had a distorted perception of what we really understand by 'resource allocation' and 'economic efficiency'. They took it for granted that this has something to do with mobile telephony (amongst other erroneous ideas) and obviously their arguments were completely out of context.
- (e) The absence of public and merit goods and imperfect information leading to shortages and surpluses were very common arguments. However, strangely enough, more obvious realities such as income inequalities and externalities (pollution, etc.) were not adequately tackled and explained. Candidates were heavily penalised for missing out on such basic yet imperative observations in their arguments.

### **3.2.2 Question 2**

- (a) There were some 'illogical' conclusions like for example that the economist was trying to use more workers because they are cheaper than the other resources. The economist was carrying out some sort of experiment and yet still, since this was a small farm, there were others who argued that it did not make sense to invest in heavy machines – better to use a plough or two! However, these were isolated cases and in general the economic argument that only in this way we can calculate marginal returns was hinted at in a satisfactory manner.
- (b) Technically there were only 31 full answers that emphasised 'the change in output caused by one-unit change in labour'. However, candidates who failed to specifically mention the 'one-unit change in labour' but remotely honoured this detail were awarded some marks. Unfortunately there were some 'ZERO' marks awarded especially if the accompanying figures were derived incorrectly as well.
- (c) See below.
- (d) See below.

- (e) Only a few of the graphs depicted were clean and tidy enough to be awarded full marks. Obviously this fact reflected badly on the explanation supporting the graph. The comparison and contrast exercise between 'Diminishing' and 'Negative' returns registered some confusing arguments amongst candidates. A disquieting number of candidates argued that 'negative returns' have something to do with long run average cost curves and economies and diseconomies of scale!

### **3.2.3 Question 3**

Some candidates were confused and switched arguments between Monetary and Fiscal policies.

- (a) Others mentioned only the interest rate as a Monetary tool discarding completely the merits of other Monetary tools such as 'open market operations' and 'Reserve requirements'.
- (b) No one argument incorporated all the valid anti-inflationary fiscal policy tools of higher direct taxes (causing a fall in disposable income), lower Government spending and a reduction in the amount the government sector borrows each year.
- (c) Many candidates failed to appreciate that in this case, local firms are presented with a challenge to keep prices down to remain competitive as their exports suddenly become more expensive. Yet, raw materials become cheaper as import prices are reduced, and therefore firms can better control costs and any effects of imported inflation. Most argued the other way round – the most awful line of thought being that exports become cheaper and instead of selling locally, firms start to export more and inflation is exported accordingly as they start to charge lower prices to the locals since they can easily charge higher prices abroad in order to compensate!
- (d) See Below.
- (e) Most of the candidates had a vague idea what makes up an incomes policy and what labour market reforms and Supply side policies are all about, but they limited themselves to explain these policies and did not succeed in producing convincing arguments as to how they can effectively be used to control inflation.

### **3.2.4 Question 4**

- (a) Most of the times this was the only part of the question that was answered correctly. The Lm600 Rent Control is an example of Price Ceiling. Unfortunately there were also a few candidates (39 candidates in all) who could not distinguish properly between a price floor and a price ceiling.
- (b) See below.
- (c) See below.
- (d) The areas marked on the Graph representing the market for rental housing served to guide candidates in their interpretation of the graph. Candidates had to read the graph carefully and work out the relevant figures that could have helped them in the subsequent discussion of what was possibly going on in this particular market situation. The concepts of Consumer and Producer Surplus were being tested. These are basic concepts that candidates were expected to be acquainted with but judging from the way candidates attempted to answer these questions, there is a frail command of demand and supply dynamics – across the board.
- (e) Candidates turned out victims of normative economics as no positive economic reasoning backed up their conclusions. The fact that rent control will have a negative impact on the market because total surplus will go down by Lm3 million had to be arrived at directly from the graphical representation! Instead, candidates simply offered pure rhetoric as a basis for their opinion.

### **3.2.5 Question 5**

- (a) Causes of Unemployment were tackled quite well by the candidates. There were some isolated cases where candidates did not identify and explain in a direct manner the various types of unemployment and some of them mixed a lot between structural, frictional and cyclical unemployment.
- (b) Improving skills and reducing occupational immobility, reflating Aggregate Demand, benefit and tax reforms, were all common answers.

### **3.2.6 Question 6**

- (a) 15 million man-hours per unit of time. 10 million per unit of time. Many scored this right but were not awarded full marks because they casually left it as is in a very sketchy manner. A total of 5 marks required some form of explanation.
- (b) See Below.

- (c) See Below.
- (d) See Below.
- (e) Many candidates lost valuable marks because they failed to appreciate that this was a derived demand question emphasising the fact that the relationship between the factor's price and the quantity of the factor demanded by firms employing it in production is directly dependent on consumer demand for the final product(s) the factor is used to produce. The supply curve actually represented the employees and the demand curve represented the employers. Worst still, few were able to explain the forces of the invisible hand that ensue in the presence of excess demand or supply, assuming no government intervention – the free price system will set in and equilibrium is reached. Once again, the basics of demand and supply were not very clearly laid out in the acquired knowledge of the candidates.

### **3.2.7 Question 7**

This was practically a gift question but many candidates failed to correctly formulate and explain the variables of the various statistical interpretations of N.I.

GDP at market prices and factor prices: an embarrassingly low number of candidates managed to discriminate accurately between the two. Moreover, 5 marks for each part of this question required a good explanation of every equation put together. Most of the explanations incorporated no equation whatsoever or tried to justify a wrong equation in the first place. As happened in previous questions, where poor quality was manifested *en masse*, marks were awarded in a very strict manner.

### **3.2.8 Question 8**

- (a) Generally speaking, arguments forwarded satisfied the basic requirements of this task. However, no argument referred directly to the fact that in this particular case, the biggest contribution of government is towards a more socially optimal level of output in an economy that would either not provide certain goods or services or would not be providing them in sufficient quantities; many limited themselves to define what is a Public and a Merit Good – sometimes ineffectively as well!
- (b) All in all, arguments presented here were satisfactory as well.
- (c) Candidates scored badly in this task as they failed to refer to the multiplier effect and the debate about how effective this form of expansionary fiscal policy is in stabilising the economy.
- (d) Some candidates scored really well, while others argued completely out of point. In the majority of cases, the examples forwarded were related to unemployment, such that as an economy grows, firms would need more workers. Unemployment consequently falls and government is relieved from some unemployment benefits along the way.

## ***3.3 Reactions on candidates' answers: Paper IIB***

### **3.3.1 Question 1**

Many did not understand 'land' as a term that includes all natural resources – certainly not the building/factory which would be an asset. On the whole, many candidates obtained good marks.

### **3.3.2 Question 2**

Candidates were expected to refer to 'specialisation and division of labour'. Some mistakenly believe that specialisation is about a top-end profession – a specialist. When answering part 2(d), candidates failed to associate 'an increased risk of unemployment' with structural unemployment.

### **3.3.3 Question 3**

Candidates did not read the question thoroughly. This question referred to the barriers to growth for small firms, and therefore the answers had to have such orientations.

### **3.3.4 Question 4**

Candidates could have done better. Some mixed up the minimum and maximum price levels in relation to the equilibrium price.

### **3.3.5 Question 5**

The calculations for GDP and GNP are not the 3 methods of national income measurement, i.e. the output, income and expenditure methods.

### **3.3.6 Question 6**

Many did not give proper definitions for injections/withdrawals into/from the circular flow of income.

### **3.3.7 Question 7**

Candidates tended to explain inflation as a situation in which the prices of products of a firm are high. Few indicated a continuous rise in the general level of prices. For part (a) ('price uncompetitiveness of domestically produced goods') candidates ignored or did not understand the meaning of 'domestically produced goods'. The answer was not related to competing prices of imported products.

### **3.3.8 Question 8**

This question was a favourite among students and answers were on the whole satisfactory.

## **PART FOUR**

### ***4.1 Conclusions***

It was observed that a fairly large proportion of candidates did not follow the instructions found at the beginning of each examination paper. Candidates are reminded to adhere to the instructions given. The members of the Board did not penalise candidates for orthography, grammatical errors and disorderly presentation unless they were manifestly wrong in their answers to the questions. However, students should express themselves sensibly and in an orderly way as these considerations are conducive to clearer minds. Despite these remarks, candidates' general performance compares favourably with the one shown by last year's candidates.

**The Chairperson  
Board of Examiners  
July 2007**