



L-Università
ta' Malta

MATSEC
Examinations Board



Marking Scheme

SEC Economics

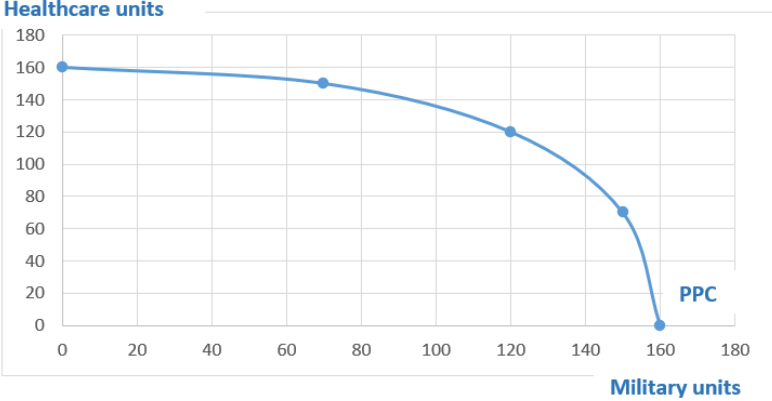
Main Session 2024

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PAPER I

SECTION A: MICRO-ECONOMICS

Question Number	Answer	Mark
1	<p>a</p> <ul style="list-style-type: none"> • Opportunity cost is the next best (1); • Alternative forgone upon making a decision (1) 	2
	<p>b</p> 	5
	<p>c</p> <p>Producing 80 more healthcare units would move the economy from combination D to B;</p> <ul style="list-style-type: none"> • $70 - 150 = -80$ (1) • The opportunity cost is giving up 80 (1) military units. (1) 	3
	<p>d</p> <p>Explain THREE factors, such as:</p> <ul style="list-style-type: none"> • Immigration, Technological Advancement, Land Reclamation, Education, ... (1x3) <p>Explain each factor (1x3)</p>	6
	<p>e</p> <ul style="list-style-type: none"> • This combination is inside the PPC and therefore productively inefficient (1) • If healthcare units are held constant and the economy is to reach full productive capacity, then we need to move to combination D. (1) • At point D, 150 military units are produced. Therefore, we need to produce 30 more military units. (1) • Working: $150 - 120$ military units (1) <p>Any other relevant reasoning will be accepted.</p>	4
	<p>f</p> <ul style="list-style-type: none"> • War destroys factors of production (1) • It destroys capital (factories), land and kills people (thereby destroying labour and entrepreneurship) (1) • A fall in the quantity and/or quality of factors of production result in an inward shift of the PPC. (1) • This means that less of both healthcare units and military units can be produced given the resources now available. (1) • Diagram showing an inward shift of the PPC (1) 	5

		(Accept other valid arguments, such as: successful invasion can increase land, thereby shifting PPC outwards. / Wars tend to contribute in reducing unemployment, as all factors of production will be utilised, in an effort to win the conflict. This means that the economy will be operating on the PPC itself.)																						
Total: 25 Marks																								
2	a	Effective demand is the quantity of a good/service that consumers are both willing and able (1) to buy at a given price, over a period of time. (1)	2																					
	b	<table border="1" style="margin-left: auto; margin-right: auto;"> <thead> <tr> <th>Price (€) per kg of flour</th> <th>Total Revenue (€) per week</th> <th>Quantity demanded (kgs per week)</th> </tr> </thead> <tbody> <tr> <td>0.5</td> <td>250</td> <td>500</td> </tr> <tr> <td>1</td> <td>450</td> <td>450</td> </tr> <tr> <td>1.5</td> <td>600</td> <td>400</td> </tr> <tr> <td>2</td> <td>700</td> <td>350</td> </tr> <tr> <td>2.5</td> <td>750</td> <td>300</td> </tr> <tr> <td>3</td> <td>750</td> <td>250</td> </tr> </tbody> </table> <p>Correct values for quantity demanded (2) Working: $Q_d = TR / P$ (1)</p>	Price (€) per kg of flour	Total Revenue (€) per week	Quantity demanded (kgs per week)	0.5	250	500	1	450	450	1.5	600	400	2	700	350	2.5	750	300	3	750	250	3
Price (€) per kg of flour	Total Revenue (€) per week	Quantity demanded (kgs per week)																						
0.5	250	500																						
1	450	450																						
1.5	600	400																						
2	700	350																						
2.5	750	300																						
3	750	250																						
	c	<ul style="list-style-type: none"> • Yes (1) • Define the law of demand: as the price of a product increases, the quantity demanded will fall, and vice versa (1), assuming other things remain equal (1) • Reference to values derived in part b. (1) <p>Any other relevant reasoning will be accepted.</p>	4																					
	d	<ul style="list-style-type: none"> • Demand curve plotted correctly (1) • Supply curve plotted correctly (1) • Neatness and precision of each curve (1x2) • Correct labelling of axes and curves (1) • Correctly enumerated axes (1) 	6																					
	e	<ul style="list-style-type: none"> • Equilibrium price: €1.50 (1) • Equilibrium quantity: 400 kgs per week (1) 	2																					
	f	<ul style="list-style-type: none"> i. Decreases (1) due to an inward shift of supply (1) ii. Decreases (1) Due to an inward shift of supply (1) iii. Decreases (1) due to inward shift of demand. (1) iv. Increases (1) due to an outward shift of demand (1) 	8																					
Total: 25 Marks																								
3	a	Variable cost is the firm's cost that varies with output.	2																					
	b	<ul style="list-style-type: none"> • Correct values for variable cost (2) • Correct values for fixed cost (2) 	6																					

- Correct values for total cost (2)

Output (no. of jeans)	Variable Cost (€)	Fixed Cost (€)	Total Cost (€)
0	0	50	50
10	45	50	95
20	62	50	112
30	70	50	120
40	94	50	144
50	145	50	195
60	230	50	280

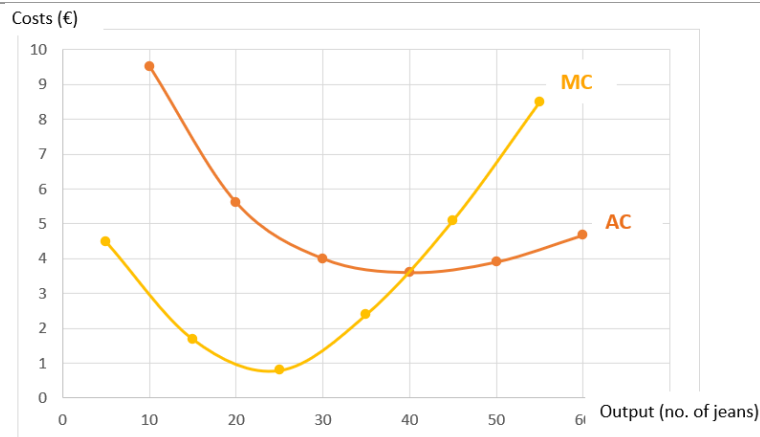
c

Output (no. of jeans)	Total Cost (€)	Marginal Cost (€)	Average Cost (€)
0	50	-	-
10	95	4.50	9.50
20	112	1.70	5.60
30	120	0.80	4.00
40	144	2.40	3.60
50	195	5.10	3.90
60	280	8.50	4.67

4

- Correct Marginal Cost values (2)
- Correct Average Cost values (2)

d



5

- Correct plotting of MC (1)
- Plotting MC on the mid-points (1)
- Correct plotting of AC (1)
- Correct labelling of axes and curves (1)
- Neat work, precision and correctly enumerated axes (1)

e

- 40 jeans (1);
At this output level the AC is at its lowest value, being €3.60. (1)
- Yes (1);

3

		<p>Diminishing marginal returns starts at the lowest point of the MC curve (1);</p> <p>This takes place when output is between 20 and 30 pairs of jeans, which precedes the optimum point of production, where output is 40. (1)</p> <p>Any other relevant reasoning will be accepted.</p>	
	f	<ul style="list-style-type: none"> • Lower variable cost (1) • Wages are variable costs, so less labour implies lower wages, and therefore lower variable costs. (1) • Replacing labour with capital will usually imply higher fixed costs. The company would have decided to replace its workers with machines in the first place in order to reduce recurring costs. (1) <p>Any other relevant reasoning will be accepted.</p>	3
Total: 25 Marks			

SECTION B: MACRO-ECONOMICS

Question Number			Answer	Mark
4	a	i	<p>Acceptable answers may include:</p> <ul style="list-style-type: none"> • Income tax • Value-added tax (VAT) • Corporate tax • Excise tax • Property tax • Customs duties • Capital gains tax • Wealth tax 	3
	a	ii	<p>Acceptable answers may include:</p> <ul style="list-style-type: none"> • Grants and aid • Fees and fines • Investment income • Seigniorage (money creation) • State-owned enterprise profits 	2
	b		<p>List and explain any TWO Principles from:</p> <ul style="list-style-type: none"> • Equity/Fairness: Taxes should be distributed in a way that is perceived as fair. (2) • Efficiency: Minimizing economic distortions and administrative costs. (2) • Simplicity: A simple tax code is easier to understand and comply with. (2) • Adequacy: The tax system should generate enough revenue to fund government activities. (2) 	4
	c	i	<p>€8000 to €12000</p> <p>Calculate the percentage of income paid in tax at both ends of the range.</p> <p>Tax at €8,000 = $(€400 / €8,000) * 100 = 5\%$</p>	6

			<p>Tax at €12,000 = $(€1,200 / €12,000) * 100 = 10\%$ As the income increases, the percentage of income paid in tax increases, indicating a progressive tax. Award 1 mark for workings and 1 mark for type of tax. (2)</p>	
		ii	<p>€12,000 to €16,000 Calculate the percentage of income paid in tax at both ends of the range. Tax at €12,000 = $(€1,200 / €12,000) * 100 = 10\%$ Tax at €16,000 = $(€1,600 / €16,000) * 100 = 10\%$ The percentage of income paid in tax remains the same, indicating a proportional tax. Award 1 mark for workings and 1 mark for type of tax. (2)</p>	
		iii	<p>€16,000 to €20,000 Calculate the percentage of income paid in tax at both ends of the range. Tax at €16,000 = $(€1,600 / €16,000) * 100 = 10\%$ Tax at €20,000 = $(€1,800 / €20,000) * 100 = 9\%$ As the income increases, the percentage of income paid in tax decreases, indicating a regressive tax. Award 1 mark for workings and 1 mark for type of tax. (2)</p>	
	d	i	<p>Impact government spending. Candidates to provide impact such as: Increased revenue can lead to higher government spending (1) on public services, infrastructure, and social programs, potentially improving public welfare. (1)</p>	2
		ii	<p>Contribute to economic growth. Candidates to provide impact such as: Increased government revenue can contribute to economic growth by financing public investments and projects (1), stimulating economic activity and employment (1).</p>	
		e	<p>The stability of tax revenue as a percentage of GDP is the result of increases in GDP growth. (2)</p>	2
	f	i	<p>More tourists may lead to higher consumption (1), resulting in increased revenue from consumption-based taxes like VAT and excise duties (1).</p>	2
		ii	<p>Higher employment can lead to increased income tax revenue (1) and reduced social welfare expenditure (1), positively impacting overall tax revenue.</p>	2
Total: 25 Marks				
5	a	i	<p>Decrease due to displacement, stress, and reduced healthcare access during conflict.</p>	1
		ii	<p>Increase due to casualties, lack of medical facilities, and displacement-related factors.</p>	1
		iii	<p>Impact on Immigration: Forced displacement within the country. (1) Impact on emigration:</p>	2

		<ul style="list-style-type: none"> • Seeking Safety: The conflict might prompt Novaterrans to emigrate in search of safety and stability, particularly if they perceive better opportunities in other countries. • Economic Reasons: The disruption caused by the conflict, such as damage to infrastructure and economic instability, could drive people to emigrate in search of better economic prospects elsewhere. • Brain Drain: The conflict may lead to a "brain drain" where skilled professionals and intellectuals leave the country due to insecurity or limited opportunities, potentially impacting the nation's development. • Family Reunification: Families separated during the conflict may opt for emigration to reunite with loved ones who have already left Novaterra. (1) 	
	iv	Natural growth rate could decrease due to a decline in births (0.5) and an increase in deaths (0.5).	1
b	i	Any Two of the below: <ul style="list-style-type: none"> • Age distribution; • gender distribution; • dependency ratios; • and trends in birth and death rates. 	2
	ii	Less developed country (1) pyramid with a wider base, indicating higher birth rates and lower life expectancy (2).	3
	c	Candidates are expected to state that in 20 years' time: for people aged between 15 and 20 there will be lower birth rates (1), given lower health/more displacements during the war (0.5), while for the part of the population aged between around 40 and 80 (1) the population would have also decreased (1) as a result of the casualties of the war and migration (0.5). to draw a new population pyramid to show the general decrease in the population (2).	5
	d	<ul style="list-style-type: none"> • Urban vs. rural distribution; • Regional distribution; • Occupational distribution; • Educational distribution. 	2
	e	Conflict may increase dependency ratio (2) due to increased mortality rates (1) and possibly decreased fertility rates (1), leading to a larger proportion of dependents.	4
	f	<p>Possible policy such as:</p> <ul style="list-style-type: none"> • Implementing programs for family planning; • Healthcare; • social support to address demographic challenges. (2) <p>Relevant discussion (2)</p>	4

Total: 25 Marks

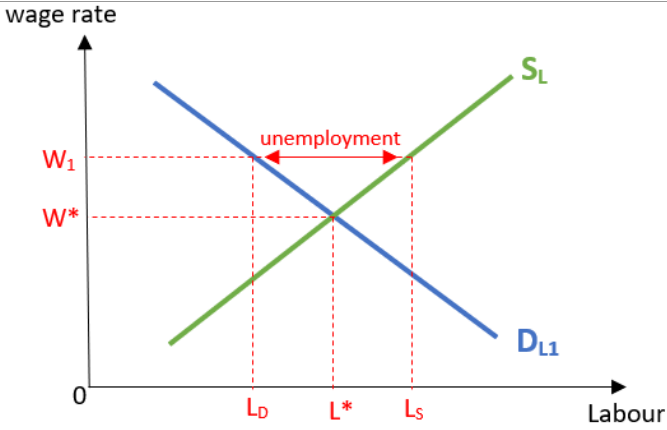
6	a	i	Money (currency).	1
		ii	Central bank or monetary authority responsible for issuing and regulating the currency. Commercial Banks.	2
	b	i	Sarah exchanging pottery for fresh vegetables from Mark.	2
		ii	<p>This exchange might not take place if Mark:</p> <ul style="list-style-type: none"> • Does not have a need for pottery at the moment • If he values his fresh vegetables more than Sarah's pottery. • Additionally, if Sarah's pottery is not of high quality+- • Mark already has sufficient pottery • And vice versa. <p>Accept any other relevant answers.</p>	4
		c	<ul style="list-style-type: none"> • Lack of a standard measure of value; • Difficulty in making complex transactions; • Inefficiency; • Inconvenience. <p>Give only 1 mark each if no explanation is provided.</p>	4
		d	Money serves as a medium of exchange (1), unit of account (1), and store of value (1), overcoming the weaknesses of barter (1).	4
		e	<ul style="list-style-type: none"> • Divisibility; • Portability; • Durability; • Uniformity; • Acceptability. <p>Give only 1 mark each if these are not described.</p>	4
		f	<ul style="list-style-type: none"> • Medium of exchange; • Unit of account; • Store of value; • Standard of deferred payment; • Measure of value. <p>Give only 1 mark each if these are not described.</p>	4
Total: 25 Marks				

PAPER IIA

Question Number		Answer	Mark	
1	a	Income elasticity of demand is the responsiveness of quantity demanded of a good/service to a change in disposable income.	2	
	b	i	YED = $\% \Delta Q_d / \% \Delta Y$	1
		ii	$\% \Delta Q_d = ((5,300 - 5,000)/5,000) \times 100 = 6\%$ (1) YED = +6% / +8% (2) YED = 0.75 (2)	5
	c	i	<ul style="list-style-type: none"> In the case of normal goods, the quantity demanded would increase following an increase in households' disposable income. (1) Inferior goods would experience a drop in quantity demanded following an increase in disposable income. (1) In this case, YED is positive, showing the positive relationship between income and quantity demanded. (1) This signifies that smartphones are normal goods. (1) 	4
		ii	<ul style="list-style-type: none"> Necessities are commodities that are needed by households, whilst luxury goods are commodities that are wanted but not really needed. (1) Necessities have $YED < 1$, being income-inelastic; meaning that quantity demanded will change less-than-proportionate to a change in disposable income. (1) Luxury goods have $YED > 1$, being income-elastic; meaning that quantity demanded will change more-than-proportionate to a change in disposable income. (1) In this case, smartphones are considered to be a necessity, since $YED = 0.75$, which is smaller than 1. (1) 	4
	d	i	Cross elasticity of demand (1) is the responsiveness of quantity demanded of one product to a change in the price of another product (1)	2
		ii	$CED = \% \Delta Q_d^A / \% \Delta P^B$	1
		iii	<ul style="list-style-type: none"> Smartwatches can be considered as substitutes to smartphones, since both are in competitive demand to each other. (1) Therefore, the CED of smartphones to a change in the price of smartwatches should be positive ($CED > 0$) (1) This means that an increase in the price of smartwatches should increase the quantity demanded of smartphones. (1) If $CED > 1$ (elastic), then smartphones and smartwatches would be deemed as close substitutes. (1) 	4
		iv	<ul style="list-style-type: none"> Price competition would be crucial if competing firms reduce the price of a close substitute. (1) Firms can drop the price of a close complement in order to sell more of the first product (1) <p>Accept any other valid point.</p>	2

				Total: 25 Marks
2	a	i	Labour demand is the quantity of labour that firms are willing and able to employ (1) at a given wage rate in a period of time. (1)	2
		ii	Labour supply is the quantity of labour in a market that are willing and able to provide work (1) at a given wage rate, in a period of time. (1)	2
		b	<ul style="list-style-type: none"> As in the product market, prices in the labour market are determined by the forces of demand and supply. The equilibrium wage rate is determined at the point of intersection of labour demand and supply. (1) At any point above the equilibrium wage rate there will be unemployment, and at any point below it there will be unfilled job vacancies. (1) The wage rate will increase following an increase in labour demand and/or a decrease in labour supply. (1) The wage rate will decrease following a decrease in labour demand and/or an increase in labour supply. (1) <div style="text-align: center;"> </div> <ul style="list-style-type: none"> Diagram showing labour demand and supply, with equilibrium wage rate indicated clearly. (1) A change in the wage rate following any change in labour demand or supply in the same diagram. (1) 	6
	c	i	<ul style="list-style-type: none"> Non-skilled jobs are easily replaceable by AI, and therefore this will reduce firms' demand for non-skilled jobs. (1) Demand for labour will shift inwards. (1) Diagram showing inward shift in the labour demand curve. (2) 	

		<p>ii</p> <ul style="list-style-type: none"> • If labour demand decreases, this will result in excess supply at the same wage rate. (1) • This will push down wages, until the new equilibrium is reached. (1) • Diagram showing a drop in the equilibrium wage rate. (2) 		
	d	<p>i</p> <ul style="list-style-type: none"> • Trade union represent workers and try to improve their working conditions. (1) • They try to improve their wages. (1) • They provide training to their members and help them find employment. (1) <p>Accept other valid roles.</p>		3
		<p>ii</p> <ul style="list-style-type: none"> • Trade unions would bargain for higher wages or at least for wages not to go down, especially through minimum wage legislation. (1) • This might result in a wage rate that is higher than the equilibrium, resulting in excess supply, and therefore unemployment. (1) 		4

		 <ul style="list-style-type: none"> • Diagram showing current wage rate (w_1) being higher than the equilibrium wage rate (w^*). (1) • Same diagram: Unemployment marked as horizontal distance between the labour supply and demand curves at the current wage rate. (1) 	
3	a	<p>Mention THREE characteristics, such as:</p> <ul style="list-style-type: none"> • single seller; • unique product; • high barriers to entry; • price-makers, etc... (1x3) <p>Describe each characteristic. (1x3)</p>	6
	b	<ul style="list-style-type: none"> • Having a dominant position means that MDP Ltd. has characteristics of a monopoly. (1) • Monopolies are price-makers, and therefore they can control the price or the quantity demanded. (1) • One disadvantage of a monopoly is that it can increase the price and reduce the quantity in order to maximize profits. (1) • Given that MDP Ltd produces milk, which is a necessity without many close substitutes, higher milk prices can affect consumers' cost of living negatively. (1) • MCCA would want to investigate in order to make sure that MDP Ltd. can justify its price hikes due to higher costs of production, rather than to abuse from its dominant position. (1) 	5
	c	<p>Mention THREE advantages of a monopoly, such as:</p> <ul style="list-style-type: none"> • Economies of scale; • Using supernormal profits to improve the product's quality; • International competitiveness; • Lower wasteful advertising costs; • Price stability, etc... (1x3) <p>Explain each one of them. (1x3)</p>	6
	d	<p>Mention TWO advantages of privatization, such as:</p>	8

			<ul style="list-style-type: none"> • More productive efficiency; • Better product quality; • More allocative efficiency; • Government can focus more on political issues, etc... (1x2) <p>Elaborate on each point (1x2)</p> <p>Mention TWO disadvantage of privatization, such as:</p> <ul style="list-style-type: none"> • less revenue for government; • possible laying off of workers; • price of merit goods might increase, etc... (1x2) <p>Elaborate on each point (1x2)</p>	
Total: 25 Marks				
4	a	i	Small and Medium-sized Enterprises	1
		ii	<p>Mention ONE criteria, such as:</p> <ul style="list-style-type: none"> • Number of employees; • Turnover; • Market capitalization 	1
	b	i	<p>Mention TWO external sources of finance, such as:</p> <ul style="list-style-type: none"> • Selling shares and stocks; • Bank loans; • Leasing; • Hire purchase, etc... (1x2) <p>Describe each of them (1x2)</p>	4
		ii	<p>Mention TWO internal sources of finance, such as:</p> <ul style="list-style-type: none"> • Retained earnings; • Sales of fixed assets; • Effective use of capital; • Start-up investment by owner, etc... (1x2) <p>Describe each of them (1x2)</p>	4
		c	<p>Mention THREE reasons why some firms stay small, such as: Market limitations;</p> <ul style="list-style-type: none"> • Demand for variety; • Finance; • Management; • Flexibility, etc... (1x3) <p>Explain each reason. (1x3)</p>	6
	d	i	Secondary sector	1

			Accept: Secondary and tertiary sectors	
		ii	<p>Mention FOUR localizing factors, such as:</p> <ul style="list-style-type: none"> • Proximity to raw material; • Proximity to the market; • Access to transport; • Industrial zones, etc... (1x4) <p>Discuss each factor, by relating it to the bakery. (1x4)</p>	8
Total: 25 Marks				
5	a		<p>Possible points:</p> <ul style="list-style-type: none"> • Economic Growth: Through access to larger markets, Malta can increase production, leading to economic growth. • Diversification of Goods and Services: International trade allows Malta to specialize in the production of certain goods and services, leading to efficiency gains. • Enhanced Efficiency: International competition encourages efficiency, innovation, and cost reduction. 	4
	b	i	<ul style="list-style-type: none"> • Absolute Advantage: When a country can produce a good or service more efficiently than another country. (2) • Comparative Advantage: When a country has a lower opportunity cost in producing a good or service compared to another country. (2) 	4
		ii	<p>Germany:</p> <p>Opportunity Cost of Manufacturing (per unit): $\text{Tourism Produced}/\text{Manufacturing Produced} = 800/500 = 1.6$ (0.5)</p> <p>Opportunity Cost of Tourism (per unit): $\text{Manufacturing Produced}/\text{Tourism Produced} = 500/800 = 0.625$ (0.5)</p> <p>Malta:</p> <p>Opportunity Cost of Manufacturing (per unit): $\text{Tourism Produced}/\text{Manufacturing Produced} = 500/200 = 2.5$ (0.5)</p> <p>Opportunity Cost of Tourism (per unit): $\text{Manufacturing Produced}/\text{Tourism Produced} = 200/500 = 0.4$ (0.5)</p> <p>Manufacturing:</p> <p>Germany has an opportunity cost of 1.6, while Malta has an opportunity cost of 2.5. Therefore, Germany has a comparative advantage in manufacturing. (0.5)</p> <p>Tourism:</p> <p>Germany has an opportunity cost of 0.625, while Malta has an opportunity cost of 0.4. Therefore, Malta has a comparative advantage in tourism. (0.5)</p>	3

c	i	<p>Protectionism is an economic policy that involves the use of measures and restrictions to shield domestic industries from foreign competition (1). The primary goal of protectionist policies is to promote and safeguard the interests of domestic producers, businesses, and workers by limiting or controlling the import of foreign goods and services (1).</p>	2
	ii	<p>The characterization of the new EU environmental tax on shipping as a form of protectionism depends on the specific details and objectives of the tax. Generally, environmental taxes are implemented to address environmental concerns and promote sustainable practices rather than to provide protection for domestic industries. (1)</p> <p>Award 1 Mark for reasoning such as:</p> <ul style="list-style-type: none"> • Environmental Objective: If the primary purpose of the tax is to internalize the environmental costs associated with shipping, encourage cleaner practices, and reduce carbon emissions, it may be viewed as an environmental measure rather than protectionist. • Non-discriminatory Application: If the environmental tax applies uniformly to both domestic and foreign shipping companies without discriminating against foreign competitors, it is less likely to be considered protectionist. • Transparency and Fairness: The transparency and fairness of the tax implementation are crucial. If the tax is applied in a way that does not unfairly advantage domestic shipping over foreign shipping, it aligns more with environmental objectives than protectionism. • Compliance with International Agreements: If the environmental tax adheres to international agreements and regulations, such as those set by the International Maritime Organization (IMO), it may be seen as a legitimate environmental measure rather than protectionism. • Impact on Trade: If the tax has the effect of creating trade barriers or hindering the competitiveness of foreign shipping companies without a clear environmental rationale, it could be considered protectionist. • Consultation with Stakeholders: The degree to which the tax was developed in consultation with stakeholders, including the shipping industry and affected countries, can influence whether it is perceived as protectionist or as a genuine environmental initiative. 	2

			<ul style="list-style-type: none"> • Exemptions and Alternatives: If the tax provides exemptions for certain practices or alternative compliance mechanisms, it may demonstrate a balanced approach aimed at achieving environmental goals rather than protectionist objectives. 	
		iii	<ul style="list-style-type: none"> • Quotas: Quotas set limits on the quantity of specific goods that can be imported during a specified period. They are designed to restrict the volume of foreign goods entering the domestic market. • Subsidies: Governments may provide financial assistance or subsidies to domestic industries, making their products more competitive by reducing production costs. • Import Licensing: Import licensing requires businesses to obtain government approval before importing certain goods. It allows authorities to control the quantity and type of imported products. • Technical Barriers to Trade (TBT): TBT includes regulations and standards that may create obstacles for foreign goods to enter the domestic market. These standards can be related to safety, health, or technical specifications. • Currency Manipulation: Governments may manipulate their currencies to gain a trade advantage. A weaker currency can make exports more competitive and imports more expensive. • Buy Domestic Policies: Governments may implement policies that encourage or require the purchase of domestically produced goods and services by public entities or government agencies. • Anti-dumping Measures: Anti-dumping policies aim to prevent the import of goods priced below their fair market value, which could harm domestic industries. • Export Subsidies: In addition to supporting domestic industries, governments may provide subsidies to encourage the export of certain products, making them more competitive in international markets. • Customs and Administrative Procedures: Complex customs procedures and administrative barriers can create obstacles for foreign goods entering a country, protecting domestic industries. 	2
	d	i	<ul style="list-style-type: none"> • Peace and Stability: 	4

One of the founding objectives of the EU is to promote peace and stability in Europe. The EU was initially established in the aftermath of World War II with the aim of preventing future conflicts among European nations.

- **Economic Prosperity and Integration:**
Facilitating economic prosperity and integration is a central goal of the EU. The EU seeks to create a common market where goods, services, capital, and people can move freely, fostering economic growth and cooperation.
- **Common Currency (Euro):**
The introduction of the euro (€) as the common currency for many EU member states is part of the objective to deepen economic integration and enhance monetary stability among the Eurozone countries.
- **Single Market:**
The EU aims to create a single market with the free movement of goods, services, capital, and labor. This includes removing barriers to trade and promoting competition to benefit both businesses and consumers.
- **Social Cohesion:**
The EU strives to reduce economic and social disparities among its member states and regions. Cohesion policies aim to promote balanced development, reduce regional inequalities, and support less developed areas.
- **Environmental Sustainability:**
Environmental sustainability is a key objective, and the EU has implemented policies to address climate change, promote renewable energy, and improve environmental standards across member states.
- **Human Rights and Democracy:**
The EU is committed to upholding human rights, democracy, and the rule of law. These principles are fundamental to the EU's identity and are expected to be respected by all member states.
- **Security and Defense Cooperation:**
The EU seeks to enhance its capabilities in ensuring the security and defense of its member states. This includes cooperation on issues such as counterterrorism, crisis management, and peacekeeping operations.

		<ul style="list-style-type: none"> • Innovation and Research: Promoting innovation and research is a priority for the EU. The Horizon Europe program, for example, supports research and innovation projects to enhance Europe's competitiveness and address societal challenges. • Cultural and Educational Exchange: The EU aims to foster cultural understanding and educational exchange among its member states. Programs like Erasmus+ facilitate student and staff mobility, cooperation in education, and cultural exchange. • Justice and Home Affairs: Cooperation in the areas of justice and home affairs involves addressing issues such as border management, asylum and migration policies, and cooperation in the fight against organized crime. • Global Engagement: The EU plays an active role in global affairs, promoting peace, stability, and development worldwide. It engages in diplomatic efforts, humanitarian aid, and international cooperation on various issues. (2x2) 	
	ii	<ul style="list-style-type: none"> • Convergence Criteria: <p>Inflation Rate: The country's average inflation rate should not exceed the average of the three EU member states with the lowest inflation rates by more than 1.5 percentage points.</p> <p>Government Budget Deficit: The annual government budget deficit should not exceed 3% of the country's gross domestic product (GDP).</p> <p>Government Debt: The total government debt should not exceed 60% of the country's GDP or, if it does, it should be diminishing at a satisfactory pace.</p> • Exchange Rate Stability: <p>Exchange Rate Stability: The country must have participated in the Exchange Rate Mechanism (ERM II) for at least two years without severe tensions and currency devaluations.</p> • Long-Term Interest Rates: <p>Long-Term Interest Rates:</p> 	4

			<p>The country's long-term interest rates should not exceed, by more than 2 percentage points, the average of the three EU member states with the lowest inflation rates.</p> <ul style="list-style-type: none"> • Legal and Institutional Compatibility: Legislation Compatibility: The country must have incorporated EU legislation, particularly regarding monetary and economic policy, into its national legal framework. Independence of the Central Bank: The central bank of the country should be independent, and its primary objective should be to maintain price stability. • Economic Stability and Sustainable Convergence: Economic Stability and Sustainable Convergence: The country should demonstrate a high degree of sustainable economic convergence, meaning that its economic performance and policies are consistent with the goal of stability in the euro area. 	
Total: 25 Marks				
6	a	i	GDP (Gross Domestic Product): Measures the total value of goods and services produced within a country's borders.	1
		ii	GNP (Gross National Product): Measures the total value of goods and services produced by a country's residents, including those abroad.	1
		iii	NNP (Net National Product): GNP minus depreciation.	1
	b	i	<ul style="list-style-type: none"> • Production Approach: Summing value-added at each production stage. (2) • Income Approach: Summing all factor incomes. (2) • Expenditure Approach: Summing all spending (consumption, investment, government expenditure, net exports). (2) 	6
		ii	<p>Describe any two:</p> <ul style="list-style-type: none"> • Informal Economy • Non-Market Transactions • Quality Changes • Underground Economy • Deflation and Price Changes • Globalization • Quality of Data • Unrecorded Transactions • Capital Depreciation • Income Distribution • Environmental Impact • Intangible Assets 	2

	c	i	Economic growth often leads to increased production and, consequently, higher employment.	2
		ii	Explanation: Households supply factors of production to firms, receive income, spend on goods and services, and the cycle continues. (2) Drawing: Households and firms connected by arrows, labelled with income, spending, production, and consumption. (2)	4
		iii	Withdrawal (1): Saved employment income reduces spending in the circular flow, acting as a withdrawal. (1)	2
		d	Economic growth has remained resilient due to: <ul style="list-style-type: none"> • Investment in Education and Skills Development • Infrastructure Development • Research and Development Initiatives • Innovation and Technology Adoption • Export Promotion and Trade Policies • Regulatory Reforms • Fiscal Policy Adjustments • Monetary Policy Measures • Small and Medium Enterprise (SME) Support • Sustainable Development Practices • Labour Market Reforms Award 1 mark for stating and 1 mark for elaborating each statement (3X2)	6
Total: 25 Marks				
7	a	i	Inflation: A sustained increase in the general price level of goods and services. (1.5) Unemployment: The condition where people who are capable of working are unable to find work. (1.5)	3
		ii	Name any two: <ul style="list-style-type: none"> • Demand-pull inflation • Cost-push inflation • Wage-price inflation • Hyperinflation • Imported inflation • Stagflation • Creeping inflation • Suppressed inflation 	2
		iii	Name any two: <ul style="list-style-type: none"> • Frictional unemployment • Structural unemployment • Cyclical unemployment 	2

			<ul style="list-style-type: none"> • Seasonal unemployment • Voluntary unemployment • Involuntary unemployment • Hidden unemployment 	
	b	i	<p>Describe any two:</p> <ul style="list-style-type: none"> • Reduced Purchasing Power • Income Redistribution • Uncertainty and Planning Challenges • Interest Rates and Monetary Policy • Impact on Fixed Incomes • Menu Costs • Distorted Price Signals • International Competitiveness • Savers and Investors • Shoe-Leather Costs • Hyperinflation Risks • Impact on Asset Prices • Social and Political Effects 	2
		ii	<p>Describe any two:</p> <ul style="list-style-type: none"> • Financial Strain • Poverty and Homelessness • Reduced Consumer Spending • Skill Erosion • Psychological Impact • Social Isolation • Impact on Families • Reduced Human Capital Development • Crime Rates • Government Expenditure • Lost Productivity • Long-term Economic Scarring • Skill Mismatch 	4
	c	i	<p>Discuss any two:</p> <ul style="list-style-type: none"> • Monetary Policy • Fiscal Policy • Exchange Rate Policy • Wage and Price Controls • Supply-Side Policies • Contractionary Monetary Policy • Open Market Operations 	3

			<ul style="list-style-type: none"> • Reserve Requirements • Discount Rate Adjustments • Tax Policy Changes • Government Expenditure Control • Anti-Inflationary Agreements • Central Bank Independence 	
		ii	<p>Discuss any two:</p> <ul style="list-style-type: none"> • Fiscal Policy • Monetary Policy • Education and Training Programs • Labour Market Reforms • Infrastructure Investment • Workforce Development Initiatives • Job Creation Programs • Subsidies and Incentives for Businesses • Public-Private Partnerships • Short-Term Employment Schemes • Targeted Industry Support • Reducing Regulatory Barriers • Youth Employment Programs 	3
		d	<p>Advantages of Unemployment:</p> <ul style="list-style-type: none"> • Reduced Labor Market Pressure • Increased Flexibility for Job Seekers • Opportunities for Skill Development • Voluntary Leisure Time • Potential for Entrepreneurship • Focus on Family and Community Activities <p>Advantages of Inflation:</p> <ul style="list-style-type: none"> • Debt Relief for Borrowers • Encouragement of Spending and Investment • Facilitation of Adjustments in Relative Prices • Easing of Deflationary Pressures • Increased Revenue for Businesses • Stimulus for Economic Growth 	4
Total: 25 Marks				
8	a	i	The improvement in living standards, reduction in poverty, and enhancement of overall well-being.	1
		ii	The increase in a country's output of goods and services over time.	1
		b	Economic Development: Enhances the quality of life, reduces inequality. (2)	4

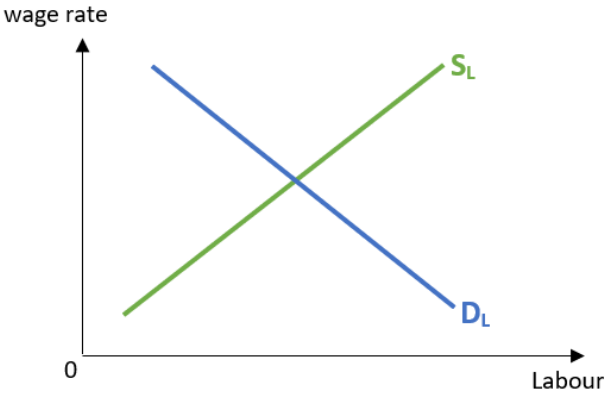
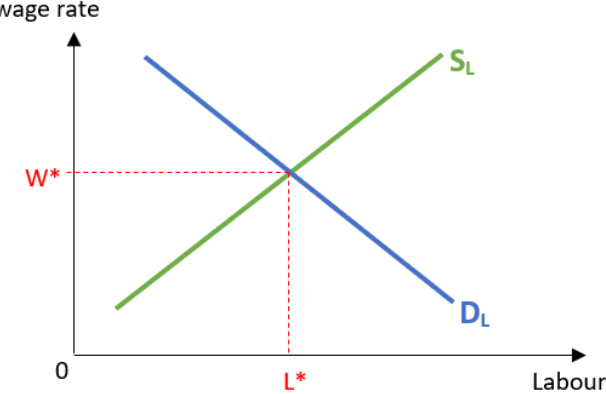
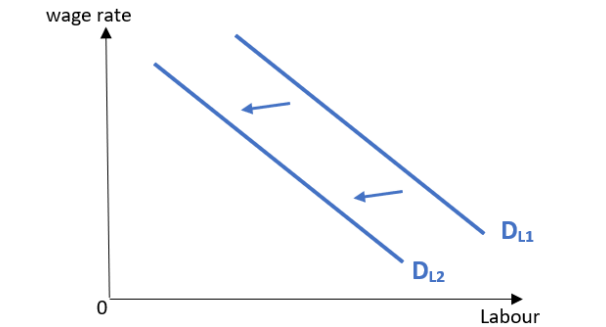
		Economic Growth: Generates more resources for public services. (2)	
c	i	Gross Domestic Product (GDP) per Capita: Measures the average income per person in a country. (1) Human Development Index (HDI): A composite index that includes life expectancy, education, and income. (1)	2
	ii	<p>GDP per Capita: Strengths: (1)</p> <ul style="list-style-type: none"> • Simplicity: Easy to calculate and understand. • Widespread Use: Widely used in economic analyses and comparisons. <p>Limitations: (1)</p> <ul style="list-style-type: none"> • Neglects Income Distribution: Ignores income distribution within the country. • Ignores Non-Market Transactions: Non-market activities and informal economies are excluded. <p>Human Development Index (HDI): Strengths: (1)</p> <ul style="list-style-type: none"> • Comprehensive: Includes multiple dimensions (health, education, income). • Reflects Well-Being: Provides a more holistic view of development. <p>Limitations: (1)</p> <ul style="list-style-type: none"> • Subjective Weights: Weights assigned to each dimension are somewhat arbitrary. • Education Measurement Challenges: May not fully capture the quality of education. 	4
d	i	<p>Outline any Two:</p> <ul style="list-style-type: none"> • Infrastructure Development • Education and Skill Training • Investment Incentives • Access to Finance • Agricultural Development • Export Promotion • Trade Liberalization • Technology Transfer • Governance Reforms • Poverty Alleviation Programs • Healthcare Improvement • Regional Development Initiatives 	4

		<ul style="list-style-type: none"> • Small and Medium Enterprise (SME) Support • Foreign Direct Investment (FDI) Promotion • Sustainable Development Practices 	
	ii	<ul style="list-style-type: none"> • Infrastructure Development: High upfront costs and potential debt burden. • Education and Skill training: Time lag for skills to translate into economic impact. • Investment Incentives: Balancing incentives with fiscal responsibility. • Access to Finance: Ensuring inclusivity and avoiding financial crises. • Agricultural Development: Land-use conflicts and environmental impact. • Export Promotion: Global competition and trade barriers. • Trade Liberalization: Adjustment pains for domestic industries. • Technology Transfer: Protecting intellectual property rights. • Governance Reforms: Resistance to change and political instability. • Poverty Alleviation Programs: Identifying and targeting vulnerable populations. • Healthcare Improvement: Resource constraints and infrastructure gaps. • Regional Development Initiatives: Balancing regional disparities. • Small and Medium Enterprise (SME) Support: Limited access to markets and resources. • Foreign Direct Investment (FDI) Promotion: Balancing national interests and foreign influence. • Sustainable Development Practices: Balancing economic growth and environmental protection. 	5
	e	<p>Benefits of Economic Growth:</p> <ul style="list-style-type: none"> • Increased Employment Opportunities • Higher Incomes for Individuals • Improved Living Standards • Enhanced Business Profits • Technological Advancements • Innovation and Research Opportunities • Expanded Infrastructure • Higher Government Revenues • Poverty Reduction • Improved Healthcare and Education <p>Costs of Economic Growth:</p> <ul style="list-style-type: none"> • Income Inequality • Environmental Degradation • Resource Depletion • Social Disparities • Urbanization Challenges 	4

		<ul style="list-style-type: none"> • Strain on Public Services • Cultural Homogenization • Overreliance on Consumerism • Debt Accumulation • Potential for Economic Inequity 	
			Total: 25 Marks

PAPER IIB

Question Number		Answer	Mark	
1	a	Whilst a necessity is a good/service that consumers need in order to survive (1), a luxury good is something that consumers want but not necessarily need. (1)	2	
	b	Income elasticity of demand is the responsiveness of quantity demanded of a good/service to a change in disposable income.	2	
	c	i	YED = $\% \Delta Q_d / \% \Delta Y$	1
		ii	Working: YED = +6% / +8% (3) YED = 0.75 (2)	5
	d	<ul style="list-style-type: none"> • Inelastic (1) • Since YED is smaller than 1 (1) • Meaning that a change in income will result in a less-than-proportionate change in the quantity demanded. (1) 	3	
	e	Inferior goods would experience a drop in quantity demanded following an increase in disposable income.	2	
	f	i	Cross elasticity of demand (1) is the responsiveness of quantity demanded of one product to a change in the price of another product (1).	2
		ii	CED = $\% \Delta Q_d^A / \% \Delta P^B$	1
		iii	Smartwatches can be considered as substitutes to smartphones (1), since both are in competitive demand to each other. (1)	2
		iv	CED = -5% / -10% (3) CED = 0.5 (2)	5
			Total: 25 Marks	
2	a	i	Labour demand is the quantity of labour that firms are willing and able to employ (1) at a given wage rate in a period of time. (1)	2
		ii	Labour supply is the quantity of labour in a market that are willing and able to provide work (1) at a given wage rate, in a period of time. (1)	2

	b	 <p>A graph showing the labour market equilibrium. The vertical axis is labeled 'wage rate' and the horizontal axis is labeled 'Labour'. The origin is marked '0'. A downward-sloping blue line is labeled D_L and an upward-sloping green line is labeled S_L. The two lines intersect at an equilibrium point.</p> <ul style="list-style-type: none"> • Downward sloping demand curve (1) • Upward sloping supply curve (1) • Correct labelling of curves (1) • Correct labelling of both axes (1) 	4	
	c	 <p>A graph showing the labour market equilibrium. The vertical axis is labeled 'wage rate' and the horizontal axis is labeled 'Labour'. The origin is marked '0'. A downward-sloping blue line is labeled D_L and an upward-sloping green line is labeled S_L. The intersection point is marked with red dashed lines extending to the axes, where the equilibrium wage rate is labeled W^* and the equilibrium quantity of labour is labeled L^*.</p> <ul style="list-style-type: none"> • Equilibrium wage rate marked correctly. (1) • Equilibrium quantity of labour marked correctly. (1) 	2	
	d	i	Decrease	1
		ii	Since labour would be replaced by AI, then less workers would be demanded.	1
		iii	 <p>A graph showing an inward shift in the labour demand curve. The vertical axis is labeled 'wage rate' and the horizontal axis is labeled 'Labour'. The origin is marked '0'. Two downward-sloping blue lines are shown, with the outer one labeled D_{L1} and the inner one labeled D_{L2}. Blue arrows point from D_{L1} towards D_{L2}, indicating a decrease in demand.</p> <p>Diagram showing inward shift in the labour demand curve.</p>	2
	e	i	<p>Human work that requires little to no specialised training and education. (1)</p> <p>Any valid example, such as:</p> <ul style="list-style-type: none"> • Delivery service; • Cashier; • Cleaner, ... (1) 	2

		ii	Human work that requires a high level of specialised training and education. (1) Any valid example, such as: <ul style="list-style-type: none"> • Economist; • Surgeon; • Pilot, ... (1) 	2
f		i	<ul style="list-style-type: none"> • Trade union represent workers and try to improve their working conditions. (1) • They try to improve their wages. (1) • They provide training to their members and help them find employment. (1) <p>Accept other valid roles.</p>	3
		ii	<p>The diagram shows a labour market with a downward-sloping demand curve D_{L1} and an upward-sloping supply curve S_L. The vertical axis is labeled 'wage rate' and the horizontal axis is labeled 'Labour'. The equilibrium point is at wage rate W^* and labour level L^*. A higher wage rate W_1 is shown, which results in a labour demand L_D and a labour supply L_S. The horizontal distance between the demand and supply curves at W_1 is labeled 'unemployment'.</p> <ul style="list-style-type: none"> • This might result in excess supply (1), and therefore creates unemployment. (1) • Diagram showing current wage rate (w_1) being higher than the equilibrium wage rate (w^*). (1) • Same diagram: Unemployment marked as horizontal distance between the labour supply and demand curves at the current wage rate. (1) 	4
Total: 25 Marks				
3		a	List any FOUR barriers to entry, such as: <ul style="list-style-type: none"> • Predatory pricing; • Economies of scale; • Legal protection; • Control of key factors; • Mergers and takeovers; • Advertising, ... 	4
		b	Mention TWO characteristics, such as: <ul style="list-style-type: none"> • Single seller; • Unique product; • Price-makers, ... (1x2) 	4

		Describe each characteristic (1x2)		
	c	<p>TWO disadvantages of monopolies, such as:</p> <ul style="list-style-type: none"> • High prices; • Low output; • Productive inefficiency; • Allocative inefficiency, ... (2x2) 	4	
	d	<p>Mention TWO advantages of a monopoly, such as:</p> <ul style="list-style-type: none"> • Economies of scale, • Using supernormal profits to improve the product's quality, • International competitiveness, • Lower wasteful advertising costs, • Price stability, etc... 	4	
	e	i	Perfect Competition	1
		ii	<p>List any TWO characteristics of Perfect Competition, such as:</p> <ul style="list-style-type: none"> • Many sellers and buyers, • Homogeneous products, • Freedom to entry/exit, • Price-takers 	2
	f		<p>Mention ONE advantage of privatization, such as:</p> <ul style="list-style-type: none"> • More productive efficiency, • Better product quality, • More allocative efficiency, • Government can focus more on political issues, etc... (1) <p>Discuss the advantage (2)</p> <p>Mention ONE disadvantage of privatization, such as:</p> <ul style="list-style-type: none"> • Less revenue for government, • Possible laying off of workers, • Price of merit goods might increase, etc... (1) <p>Discuss the disadvantage (2)</p>	6
Total: 25 Marks				
4	a	Small and Medium-sized Enterprises	1	
	b	<p>Mention THREE other sources of finance, such as:</p> <ul style="list-style-type: none"> • Bank loans, • Leasing, • Selling shares and stocks, • Retained earnings, • Sales of fixed assets, etc... (1x3) <p>Do not accept: government subsidies</p>	6	

		Describe each source of finance (1x3)		
	c	<p>List any THREE reasons, such as:</p> <ul style="list-style-type: none"> • Market domination, • Higher specialization, • Obtaining economies of scale, • Obtaining risk-bearing economies through diversification, • Or other valid reason (1x3) 	3	
	d	<p>Mention THREE reasons why some firms stay small, such as:</p> <ul style="list-style-type: none"> • Market limitations, • Demand for variety, • Finance, • Management, • Flexibility, (1x3) <p>Describe each reason (1x3)</p>	6	
	e	i	<p>Primary sector</p> <p>Valid example from the extractive industry, such as:</p> <ul style="list-style-type: none"> • Farming, • Fishing, • Quarrying, • Oil extraction, • Mining, etc... (1) 	1
		ii	<p>Secondary sector</p> <p>Valid example from the manufacturing or construction industry:</p> <ul style="list-style-type: none"> • Food processing, • Oil refinement, • Automobile manufacturing, etc (1) <p>Accept: manufacturing and construction industries</p>	1
		iii	<p>Tertiary sector</p> <p>Valid example from the services industry, such as:</p> <ul style="list-style-type: none"> • Retail, • Financial services, • Maintenance, • Hospitality, etc... (1) 	1
	f		<p>Mention THREE localizing factors, such as:</p> <ul style="list-style-type: none"> • Proximity to raw material, • Proximity to the market, • Access to transport, • Proximity to coastal sites, 	6

		<ul style="list-style-type: none"> Industrial zones, etc... (1x3) <p>Discuss each factor. (1x3)</p>		
Total: 25 Marks				
5	a	<ul style="list-style-type: none"> Economic Growth: Through access to larger markets, Malta can increase production, leading to economic growth. Diversification of Goods and Services: International trade allows Malta to specialize in the production of certain goods and services, leading to efficiency gains. Enhanced Efficiency: International competition encourages efficiency, innovation, and cost reduction. 	2	
	b	i	<ul style="list-style-type: none"> Absolute Advantage: When a country can produce a good or service more efficiently than another country. (2) Comparative Advantage: When a country has a lower opportunity cost in producing a good or service compared to another country. (2) 	4
		ii	<p>Manufacturing:</p> <p>Germany produces 500 units. (0.5) Malta produces 200 units. (0.5) In manufacturing, Germany has the absolute advantage because it produce more units than Malta. (0.5)</p> <p>Tourism:</p> <p>Germany produces 800 units. (0.5) Malta produces 500 units. (0.5) In tourism, Germany also has the absolute advantage because it produce more units than Malta. (0.5)</p>	3
	c	i	<ul style="list-style-type: none"> Discriminatory Application: If the environmental tax is applied in a discriminant manner on domestic and foreign shipping companies it is likely to be considered protectionist. Transparency and Fairness: If the tax is applied in a way that provides an unfair advantage on domestic shipping over foreign shipping, it could be considered protectionist. Impact on Trade: If the tax has the effect of creating trade barriers or hindering the competitiveness of foreign shipping companies without a clear environmental rationale, it could be considered protectionist. 	2
		ii	<p>Any one from the reasons below:</p> <ul style="list-style-type: none"> Quotas: 	

			<p>Quotas set limits on the quantity of specific goods that can be imported during a specified period. They are designed to restrict the volume of foreign goods entering the domestic market.</p> <ul style="list-style-type: none"> • Subsidies: Governments may provide financial assistance or subsidies to domestic industries, making their products more competitive by reducing production costs. • Import Licensing: Import licensing requires businesses to obtain government approval before importing certain goods. It allows authorities to control the quantity and type of imported products. • Technical Barriers to Trade (TBT): TBT includes regulations and standards that may create obstacles for foreign goods to enter the domestic market. These standards can be related to safety, health, or technical specifications. • Currency Manipulation: Governments may manipulate their currencies to gain a trade advantage. A weaker currency can make exports more competitive and imports more expensive. • Buy Domestic Policies: Governments may implement policies that encourage or require the purchase of domestically produced goods and services by public entities or government agencies. • Anti-dumping Measures: Anti-dumping policies aim to prevent the import of goods priced below their fair market value, which could harm domestic industries. • Export Subsidies: In addition to supporting domestic industries, governments may provide subsidies to encourage the export of certain products, making them more competitive in international markets. • Customs and Administrative Procedures: Complex customs procedures and administrative barriers can create obstacles for foreign goods entering a country, protecting domestic industries 	
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	d	<ul style="list-style-type: none"> • Increase in Import Costs: If the new environmental tax leads to higher shipping costs for goods imported into Malta, it could result in increased prices for imported goods. This may reduce the demand for imports or lead to higher prices for consumers, depending on the elasticity of demand for imported goods. • Impact on Export Competitiveness: If the tax also applies to outgoing shipments from Malta, it could affect the competitiveness of Maltese exports in international markets. Higher shipping costs could make Maltese goods less competitive compared to products from countries with lower shipping costs, potentially leading to a decline in export volumes. • Shifts in Trade Patterns: The imposition of an environmental tax on shipping may prompt changes in trade patterns, with businesses and consumers seeking alternative sources for goods that incur lower shipping costs. This could lead to shifts in Malta's import and export destinations as traders look for more cost-effective shipping routes. • Investment in Green Technologies: To mitigate the impact of the environmental tax and remain competitive in global trade, Maltese businesses may invest in greener shipping technologies or alternative transportation methods that incur lower environmental costs. This could lead to innovation and advancements in sustainable shipping practices. • Policy Responses: Malta, as an EU member state, may also respond to the new environmental tax through domestic policy measures aimed at supporting industries affected by higher shipping costs or promoting sustainability in transportation and logistics. Such policies could influence the overall impact on Malta's imports and exports. • Award only 2 marks if no explanation is provided. (1x4) 	4
	e i	<ul style="list-style-type: none"> • Peace and Stability: One of the founding objectives of the EU is to promote peace and stability in Europe. The EU was initially established in the aftermath of World War II with the aim of preventing future conflicts among European nations. • Economic Prosperity and Integration: Facilitating economic prosperity and integration is a central goal of the EU. The EU seeks to create a common market where goods, services, capital, and people can move freely, fostering economic growth and cooperation. 	2

- **Common Currency (Euro):**
The introduction of the euro (€) as the common currency for many EU member states is part of the objective to deepen economic integration and enhance monetary stability among the Eurozone countries.
- **Single Market:**
The EU aims to create a single market with the free movement of goods, services, capital, and labour. This includes removing barriers to trade and promoting competition to benefit both businesses and consumers.
- **Social Cohesion:**
The EU strives to reduce economic and social disparities among its member states and regions. Cohesion policies aim to promote balanced development, reduce regional inequalities, and support less developed areas.
- **Environmental Sustainability:**
Environmental sustainability is a key objective, and the EU has implemented policies to address climate change, promote renewable energy, and improve environmental standards across member states.
- **Human Rights and Democracy:**
The EU is committed to upholding human rights, democracy, and the rule of law. These principles are fundamental to the EU's identity and are expected to be respected by all member states.
- **Security and Defense Cooperation:**
The EU seeks to enhance its capabilities in ensuring the security and defense of its member states. This includes cooperation on issues such as counterterrorism, crisis management, and peacekeeping operations.
- **Innovation and Research:**
Promoting innovation and research is a priority for the EU. The Horizon Europe program, for example, supports research and innovation projects to enhance Europe's competitiveness and address societal challenges.
- **Cultural and Educational Exchange:**
The EU aims to foster cultural understanding and educational exchange among its member states. Programs like Erasmus+ facilitate student and staff mobility, cooperation in education, and cultural exchange.
- **Justice and Home Affairs:**

			<p>Cooperation in the areas of justice and home affairs involves addressing issues such as border management, asylum and migration policies, and cooperation in the fight against organized crime.</p> <ul style="list-style-type: none"> • Global Engagement: The EU plays an active role in global affairs, promoting peace, stability, and development worldwide. It engages in diplomatic efforts, humanitarian aid, and international cooperation on various issues. (1x2) 	
		ii	<p>Arguments for adopting a single European currency:</p> <p>Facilitation of Trade: A single currency eliminates exchange rate uncertainties within the Eurozone, making trade and investment easier and more efficient. This can lead to increased economic integration and greater trade volume among member countries.</p> <p>Price Transparency: With a single currency, consumers can easily compare prices across different Eurozone countries, fostering competition and potentially leading to lower prices due to increased transparency.</p> <p>Enhanced Economic Stability: A common currency can contribute to greater macroeconomic stability by reducing currency speculation and exchange rate fluctuations. It can also provide a shield against currency crises and speculative attacks, as seen during the Eurozone debt crisis.</p> <p>Reduced Transaction Costs: Businesses and individuals no longer need to incur costs associated with currency conversion when conducting transactions across borders within the Eurozone. This can lead to cost savings and increased efficiency in cross-border transactions.</p> <p>Increased Foreign Investment: A single currency may attract more foreign investment into the Eurozone as it reduces currency risk for investors, making the region more attractive for investment. (1x2)</p> <p>Arguments against adopting a single European currency:</p> <p>Loss of Monetary Sovereignty: Member countries relinquish control over their monetary policy when they adopt a single currency, as decisions regarding interest rates and money supply are made centrally by the European Central Bank (ECB). This can limit a country's ability to address its specific economic conditions, leading to concerns about sovereignty.</p>	4

		<p>Divergent Economies: The Eurozone consists of countries with diverse economic structures and levels of development. A single monetary policy may not be suitable for all member countries, leading to disparities in economic performance and potential difficulties in achieving economic convergence.</p> <p>Limited Policy Tools: Without control over monetary policy, member countries facing economic downturns or crises may have limited policy tools at their disposal to stimulate their economies. This can exacerbate economic downturns and lead to prolonged periods of stagnation or recession in certain regions.</p> <p>Loss of Exchange Rate Flexibility: Member countries lose the ability to adjust their exchange rates to respond to external shocks or changes in competitiveness. This can pose challenges for countries with less competitive economies, as they cannot devalue their currency to improve export competitiveness.</p> <p>Risk of Fiscal Imbalances: A single currency without sufficient fiscal integration can lead to fiscal imbalances among member countries. Countries facing economic difficulties may not receive sufficient fiscal transfers or support from stronger economies, leading to tensions and potential destabilization within the Eurozone. (1x2)</p>	
	f	<p>Any one of the following Convergence Criteria:</p> <ul style="list-style-type: none"> • Inflation Rate: The country's average inflation rate should not exceed the average of the three EU member states with the lowest inflation rates by more than 1.5 percentage points. • Government Budget Deficit: The annual government budget deficit should not exceed 3% of the country's gross domestic product (GDP). • Government Debt: The total government debt should not exceed 60% of the country's GDP or, if it does, it should be diminishing at a satisfactory pace. • Exchange Rate Stability: The country must have participated in the Exchange Rate Mechanism (ERM II) for at least two years without severe tensions and currency devaluations. • Long-Term Interest Rates: 	2

			<p>The country's long-term interest rates should not exceed, by more than 2 percentage points, the average of the three EU member states with the lowest inflation rates.</p> <ul style="list-style-type: none"> • Legislation Compatibility: <ul style="list-style-type: none"> • The country must have incorporated EU legislation, particularly regarding monetary and economic policy, into its national legal framework. • Independence of the Central Bank: <p>The central bank of the country should be independent, and its primary objective should be to maintain price stability.</p> • Economic Stability and Sustainable Convergence: <p>The country should demonstrate a high degree of sustainable economic convergence, meaning that its economic performance and policies are consistent with the goal of stability in the euro area.</p> 	
Total: 25 Marks				
6	a	i	GDP (Gross Domestic Product): Measures the total value of goods and services produced within a country's borders.	1
		ii	GNP (Gross National Product): Measures the total value of goods and services produced by a country's residents, including those abroad.	1
		iii	NNP (Net National Product): GNP minus depreciation.	1
	b		<p>Production Approach: Summing value-added at each production stage.</p> <p>Income Approach: Summing all factor incomes.</p> <p>Expenditure Approach: Summing all spending (consumption, investment, government expenditure, net exports).</p> <p>Award only 2 marks if no explanation is provided.</p>	4
	c		Economic growth often leads to increased production (1.5) and, consequently higher employment. (1.5)	3
	d	i	Explanation: Households supply factors of production to firms, receive income, spend on goods and services, and the cycle continues.	2
		ii	Drawing: Households (0.5) and firms (0.5) connected by arrows, labelled with income (0.5), spending (0.5), production (0.5), and consumption (0.5).	3
		iii	<p>Withdrawals:</p> <ul style="list-style-type: none"> • Savings • Taxes • Imports <p>Injections:</p> <ul style="list-style-type: none"> • Investment • Government Spending • Exports 	2

	e	<ul style="list-style-type: none"> • Informal Economy • Non-Market Transactions • Quality Changes • Underground Economy • Deflation and Price Changes • Globalization • Quality of Data • Unrecorded Transactions • Capital Depreciation • Income Distribution • Environmental Impact • Intangible Assets <p>Award 1 mark for mentioning and 1 month for elaborating</p>	4
	f	<ul style="list-style-type: none"> • Investment in Education and Skills Development • Infrastructure Development • Research and Development Initiatives • Innovation and Technology Adoption • Export Promotion and Trade Policies • Regulatory Reforms • Fiscal Policy Adjustments • Monetary Policy Measures • Small and Medium Enterprise (SME) Support • Sustainable Development Practices • Tourism Promotion and Diversification • Labour Market Reforms <p>Award only 2 marks if no explanation is provided.</p>	4
Total: 25 Marks			
7	a	<p>Inflation: A sustained increase in the general price level of goods and services. (1)</p> <p>Unemployment: The condition where people who are capable of working are unable to find work. (1)</p>	2
	b	<p>i</p> <p>Name two:</p> <ul style="list-style-type: none"> • Demand-pull inflation • Cost-push inflation • Wage-price inflation • Hyperinflation • Imported inflation • Stagflation • Creeping inflation 	2

			<ul style="list-style-type: none"> • Suppressed inflation 	
		ii	<p>Name two:</p> <ul style="list-style-type: none"> • Frictional unemployment • Structural unemployment • Cyclical unemployment • Seasonal unemployment • Voluntary unemployment • Involuntary unemployment • Hidden unemployment 	2
	c	i	As inflation rises, purchasing power falls because one needs more units of currency to acquire the same basket of goods.	1
		ii	<p>Mention two:</p> <ul style="list-style-type: none"> • Income Redistribution • Uncertainty and Planning Challenges • Interest Rates and Monetary Policy • Impact on Fixed Incomes • Menu Costs • Distorted Price Signals • International Competitiveness • Savers and Investors • Shoe-Leather Costs • Hyperinflation Risks • Impact on Asset Prices • Social and Political Effects 	4
	d	i	<p>The unemployed person;</p> <ul style="list-style-type: none"> • Poverty, • Erosion of skills, • Homelessness 	2
		ii	<p>The economy;</p> <p>Increased government expenditure to support the unemployed through unemployment benefits.</p>	2
		iii	<p>Businesses:</p> <p>Reduced Consumer Spending</p>	2
	e	i	<p>Outline one method:</p> <ul style="list-style-type: none"> • Monetary Policy • Fiscal Policy • Exchange Rate Policy • Wage and Price Controls • Supply-Side Policies • Contractionary Monetary Policy 	

			<ul style="list-style-type: none"> • Open Market Operations • Reserve Requirements • Discount Rate Adjustments • Tax Policy Changes • Government Expenditure Control • Anti-Inflationary Agreements • Central Bank Independence 	
		ii	<p>Outline one method:</p> <ul style="list-style-type: none"> • Fiscal Policy • Monetary Policy • Education and Training Programs • Labour Market Reforms • Infrastructure Investment • Workforce Development Initiatives • Job Creation Programs • Subsidies and Incentives for Businesses • Public-Private Partnerships • Short-Term Employment Schemes • Targeted Industry Support • Reducing Regulatory Barriers • Youth Employment Programs 	2
	f	i	<ul style="list-style-type: none"> • Reduced Labour Market Pressure • Increased Flexibility for Job Seekers • Opportunities for Skill Development • Voluntary Leisure Time • Potential for Entrepreneurship • Focus on Family and Community Activities 	2
		ii	<ul style="list-style-type: none"> • Debt Relief for Borrowers • Encouragement of Spending and Investment • Facilitation of Adjustments in Relative Prices • Easing of Deflationary Pressures • Increased Revenue for Businesses • Stimulus for Economic Growth 	2
Total: 25 Marks				
8	a	i	The improvement in living standards, reduction in poverty, and enhancement of overall well-being.	1
		ii	The increase in a country's output of goods and services over time.	1
	b	i	Economic growth is measured by looking at the changes in real GDP over a period of time. (2) Accept also changes in real GDP per capita.	3

			Award 1 mark for the numerical example where it is to be clearly shown the change between the components of 1 year and the components of previous year.	
		ii	Economic Development: Enhances the quality of life, reduces inequality. (2) Economic Growth: Generates more resources for public services. (2)	4
	c	i	Explain two: <ul style="list-style-type: none"> • Income Inequality • Environmental Degradation • Resource Depletion • Social Disparities • Urbanization Challenges • Strain on Public Services • Cultural Homogenization • Overreliance on Consumerism • Debt Accumulation • Potential for Economic Inequity 	4
		ii	Explain two: <ul style="list-style-type: none"> • Increased Employment Opportunities • Higher Incomes for Individuals • Improved Living Standards • Enhanced Business Profits • Technological Advancements • Innovation and Research Opportunities • Expanded Infrastructure • Higher Government Revenues • Poverty Reduction • Improved Healthcare and Education 	4
	d	i	Gross Domestic Product (GDP) per Capita: Measures the average income per person in a country, or Human Development Index (HDI): A composite index that includes life expectancy, education, and income.	1
		ii	GDP per Capita: Strengths: (1) <ul style="list-style-type: none"> • Simplicity: Easy to calculate and understand. • Widespread Use: Widely used in economic analyses and comparisons. Limitations: (1) <ul style="list-style-type: none"> • Neglects Income Distribution: Ignores income distribution within the country. 	2

		<ul style="list-style-type: none"> • Ignores Non-Market Transactions: Non-market activities and informal economies are excluded. <p>or</p> <p>Human Development Index (HDI):</p> <p>Strengths: (1)</p> <ul style="list-style-type: none"> • Comprehensive: Includes multiple dimensions (health, education, income). • Reflects Well-Being: Provides a more holistic view of development. <p>Limitations: (1)</p> <ul style="list-style-type: none"> • Subjective Weights: Weights assigned to each dimension are somewhat arbitrary. • Education Measurement Challenges: May not fully capture the quality of education. 	
e	i	<p>Outline one strategy:</p> <ul style="list-style-type: none"> • Infrastructure Development • Education and Skill Training • Investment Incentives • Access to Finance • Agricultural Development • Export Promotion • Trade Liberalization • Technology Transfer • Governance Reforms • Poverty Alleviation Programs • Healthcare Improvement • Regional Development Initiatives • Small and Medium Enterprise (SME) Support • Foreign Direct Investment (FDI) Promotion • Sustainable Development Practices 	2
	ii	<p>Candidates to provide challenges such as:</p> <ul style="list-style-type: none"> • Infrastructure Development: High upfront costs and potential debt burden. • Education and Skill training: Time lag for skills to translate into economic impact. • Investment Incentives: Balancing incentives with fiscal responsibility. • Access to Finance: Ensuring inclusivity and avoiding financial crises. • Agricultural Development: Land-use conflicts and environmental impact. • Export Promotion: Global competition and trade barriers. 	3

		<ul style="list-style-type: none"> • Trade Liberalization: Adjustment pains for domestic industries. • Technology Transfer: Protecting intellectual property rights. • Governance Reforms: Resistance to change and political instability. • Poverty Alleviation Programs: Identifying and targeting vulnerable populations. • Healthcare Improvement: Resource constraints and infrastructure gaps. • Regional Development Initiatives: Balancing regional disparities. • Small and Medium Enterprise (SME) Support: Limited access to markets and resources. <p>Foreign Direct Investment (FDI)</p> <p>Sustainable Development Practices: Balancing economic growth and environmental protection.</p> <p>Award only 1 mark if no explanation is provided. (1x3)</p>	
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Total: 25 Marks