UNIVERSITY OF MALTA

THE MATRICULATION CERTIFICATE EXAMINATION

ADVANCED LEVEL ECONOMICS

May 2012

EXAMINERS' REPORT

MATRICULATION AND SECONDARY EDUCATION

CERTIFICATE EXAMINATIONS BOARD

STATISTICS

Table 1: MATSEC Advanced Level Economics, May 2012

Distribution of Grades

Grades	A	B	C	D	E	F	Absent	TOTAL
No. of candidates	18	32	49	22	16	12	13	**162**
Total %	11.1	19.8	30.2	13.6	9.9	7.4	8.0	100.0

PAPER 1

Paper 1 is aimed at evaluating candidates on their knowledge of both microeconomic and macroeconomics concepts and theories. It includes not merely an assessment of basic knowledge of the topics but also their ability to debate current issues related to such concepts. The six questions in Section A (micro) and also those of Section B (macro) cover theories of market forces, marginal utility, elasticity, costs, markets, market failure and public goods, GDP, inflation, unemployment, government finances, money and exchange rate systems.

This year saw an increase in the number of candidates who registered for this exam, 162 compared to 124 of last year. However, 14 candidates absented themselves from the exam. The average mark for the 148 marked scripts was 62.5% (slightly lower than 63.3% from last year). The average mark and the number of replies for each of the twelve questions are shown hereunder in Table 1.

Question	**1**	**2**	**3**	**4**	**5**	**6**
Average mark (100%)	64.3	85	67.7	73.6	63.4	67
No of replies	105	4	76	33	53	25
Question	**7**	**8**	**9**	**10**	**11**	**12**
Average mark (100%)	54.8	51.8	64.3	53.8	42.7	68.8
No of replies	81	56	135	13	6	5

Table 1: average mark for May 2012 Paper 1 questions.

There was a slight deterioration in the replies. Most candidates tended to give standard answers, although some did mention examples even if not asked to do so by the examiner. There was more use of graphs, although these were often specifically requested in the questions. Most graphs proved to be good. Candidates continue to do better in the microeconomics section than the macroeconomics, since the latter generally entails some knowledge of current issues. More encouragement of keeping up to date and providing candidates with skills to debate certain theoretical frameworks within a local or global economic context are recommended. It is also being suggested that candidates become more exposed to different examples to show their knowledge, relying less on textbook material and perhaps be more aware of other sources of information to enrich their knowledge base.

Section A - Microeconomics

Question 1 dealt with demand for and supply of umbrellas. As in previous years, the majority of candidates preferred to reply to this question. Textbook answers were in general provided although some candidates were more innovative in their replies, for example some distinguished between rain and sun umbrellas. The highest mark obtained was 88.

Question 2 looked at the concept of marginal utility and household income. Only four candidates replied to this question. The candidates showed they were knowledgeable about the topic and in fact the highest mark was 92.

Question 3 asked for knowledge about types of elasticity. The first two parts of the question looked for definitions and these were on the whole known, however, the third part where a numerical example was requested proved more difficult for some students. The highest mark was 100.

Question 4 was about cost structures for firms. A good average mark was obtained for this question. Some candidates were confused by the last part which asked for distinctions between economies and diseconomies of scale. Highest mark was 92.

Question 5 dealt with market structures, providing for knowledge of three types of markets. Some candidates did not know how to define monopolistic competition. Some were also unable to create the graph requested in the last part. The highest mark for this question was 96.

Question 6 requested the student's knowledge on market failures, free rider problem, merit and public goods. A few candidates were unable to distinguish between the latter two types of goods, whilst examples for market failure were very similar. Highest mark was 92.

Section B - Macroeconomics

Question 7 focused on GDP. Replies were relatively weak especially for the third part of the question, which was more debateable and analytical. Even the second part which required examples proofed problematic for some students. Highest mark was 84.

Question 8 looked at inflation. Again most answers were weak, especially the second part of the question which required the student to discuss the impact of a variable on economic decision-making, which can suggest that candidates may not be aware of the impact of variables on each other within an economic structure. Highest mark was 96.

Question 9 featured unemployment. Most candidates replied to this question. The definition in the first part was well replied to, whilst the discussion in the second part was tackled well by a few students. The last part dealing with policies was much more engaged in by the students, with some offering a good discussion on more recent government initiatives in the local scene. Highest mark was 96.

Question 10 discussed government finances. The last part discussing whether countries sometimes need to run up debts provided for interesting reading. On the whole the answers were somewhat poor. Some candidates could not even distinguish between government deficit and government debt. The highest mark was 76.

Question 11 dealt with money matters. Few candidates tackled this question. The average mark was the lowest for all twelve questions. The highest mark was nonetheless 80. However, most candidates failed to explain the quantity theory of money or to discuss the role of CBM within Eurozone.

Question 12 was about exchange rate issues. Most answers were relatively average with definitions given and also the second part of the question being tackled in a fair manner. The numerical example was good in most cases. The highest mark was 80.

PAPER 2

Paper 2 consists of six questions spread over two sections. Questions in Section A test candidates` ability to interpret and evaluate the relationships observed from statistical series, while questions in Section B test candidates` skills at understanding and interpreting economic situations emerging from economic reports and studies.

The average mark for the 149 scripts marked was 70 out of 100, with a distribution of the marks as given below:

Mark	**% of students**
80+	25%
70-79	26%
60-69	27%
50-59	15%
40-49	5%
Under 40	3%
Total	100%

Candidates had to choose 3 questions from the 6 available, with at least one question from each section. As in previous editions of the paper, candidates generally preferred to opt for 2 questions from the first section. The number of replies to each question, and their average mark were as follows:

Question	**1**	**2**	**3**	**4**	**5**	**6**
No. of Replies	120	122	37	44	53	71
Average Mark out of 100	70.7	77.3	64.9	66.2	64.6	64.6

Section A focused on microeconomic concepts including demand and pricing theory in Q1, cost functions in Q2 and a combination of these two topics in Q3.

The average mark for Question 1 was reflective of the average total mark for the whole paper. Questions on demand and pricing theory are typically quite popular with students, but candidates have to be wary of question spotting based on which topics have come out in past versions of this paper. The question dealt with the plotting of a demand schedule, the calculation of price elasticity and the implication of different price elasticity values. The sub-questions were generally well answered, with candidates finding it slightly more difficult when asked to apply the principles of price elasticity to a case study (tourist agency), again pinpointing the need to constantly bridge theory with application.

Question 2 dealt with firm cost theory and asked candidates to calculate and plot the various cost curves for a manufacturer, and discuss the rationale behind the different minimum points' position. Again, this was another very popular question with students. The sub-questions were generally well answered, with candidates generally scoring c. 70% in each sub-question, or higher.

Question 3 was the least popular throughout the whole paper. It dealt with a firm's average revenue curve and total cost curve. Candidates had to discuss the interaction of these two functions, and related implications. Parts (c) and (d) on level of output where marginal revenue is zero and where price elasticity is unitary seemed to have confused candidates given that they were similarly presented. As a result, the average total mark for this question was about 65%.

Section B covered areas of macroeconomic relevance within the local context, but with special focus on the ongoing financial/ economic crisis. In Question 4 these included a discussion of the IMF report on the Maltese economy. Question 5 focused on various macroeconomic issues, including income determination, employment and inflation, and growth policies.

Candidates also had the possibility to opt for a more numerical type of question in Questions 6, which dealt with international trade. Marks obtained in this section were slightly lower than those registered in the previous section. Distribution of answered questions from this second section was also less unequal compared to Section A.

In Question 4 a good number of candidates were aware of the Maastricht criteria with respect to fiscal deficit thresholds and public debt thresholds (as a percentage of GDP). Only about half of the candidates were able to identify one-off revenue adjustments, such as a repatriation scheme or proceeds from privatisation. While sub-question (e) was straightforward and generally well answered, candidates found sub-question (f) a bit more challenging, in many cases failing to properly link fiscal deficit with public debt.

In Question 5, candidates had to discuss a number of macroeconomic issues. In the first sub-question, which at face value appeared straightforward, a number of candidates went into excessive and unnecessary detail on the approaches adopted to measure GDO (income, output, expenditure). In the second sub-question, few candidates managed to mention and discuss the participation rate (e.g. further increases in female participation in the labour force), but went into migration and black economy issues, which were valid but not the main point to be made.

In sub-question (c) on the link between price changes and GDP, few went into the impact of imported inflation on Malta's economy, or that we could also export the same quantities at higher prices (so when looking at GDP both real and nominal measures could tell a story). Some answers categorically ruled out using the real or nominal GDP measure, deeming it inaccurate or full of errors!

In sub-question (d), most answers mentioned the Phillips curve and were aware of discussions on short-term against long-term implications of this relationship. Some answers also mentioned stagflation, which were deemed valid. However, some candidates still insist on providing generic answers without referring to any theory. This question specifically mentioned the use of graphs, hinting at some economic theory which needed to be discussed.

Finally, in the last sub-question for Question 5, many answers correctly distinguished austerity from economic growth measures by mentioning that the former is predominately a form of contractionary fiscal policy. Few answers referred to the potential short-term nature of austerity measures.

Some good answers linked supply side policies with economic growth measures. However, when having to mention specific examples of economic growth models, some answers still referred to subsidies, quotas, embargoes, import controls and duties. In this regard, only a couple of answers referred to competition policy, such as the liberalisation of various market services, as an economic growth policy.

Question 6 related to questions on international trade and was the most popular question in Section B, probably due to the inclusion of a table with numbers.

Most candidates correctly defined visible trade, the current account and the capital account, and identified why Malta's services balances are generally in surplus while the goods balance is in deficit. It was also clear that some candidates were not familiar with what large capital inflows referred to, and what policies can be adopted to increase the flow of capital (e.g. FDI policies) and reducing the current account deficit.

While the overall performance in this paper remains satisfactory, candidates can further aim to improve their performance by supplementing their understanding of fundamental economic theory with an awareness of the local context, especially within what is happening around us in the ongoing financial/ economic crisis. Candidates are also encouraged to not shy away from questions requiring a more creative approach to derive solutions to problems set or when putting forward arguments and discussions, or supplementing answers with graphical and/ or mathematical explanations.

Chairperson

Examination Panel 2012