



L-Università
ta' Malta

MATSEC
Examinations Board



Examiners' Report

AM Economics

Special September Session 2020

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A. STATISTICAL INFORMATION

The total number of candidates who registered to sit for Advanced Economics was 140, which is 21 candidates more than in 2019.

Table 1 shows the distribution of grades for the Special September 2020 Session of the examination

GRADE	A	B	C	D	E	F	ABS	TOTAL
Candidates	10	20	35	29	8	10	28	140
% OF TOTAL	7.1	14.3	25.0	20.7	5.7	7.1	20.0	100

Table 1: Distribution of grades for Economics, Special September Session 2020

B. COMMENTS ON PAPER I AND II**PAPER I**

Question number	Answered by	Average mark
1	101	17
2	57	14
3	12	13
4	34	16
5	19	14
6	1	-
7	61	16
8	21	15
9	35	19
10	58	19
11	33	14
12	15	15

Table 2: Average mark of answered Paper I questions for Economics, Special September Session 2020

Question 1

Overall, the answers provided to question 1 were of a good level, with the mark averaging around 70%. The answers provided to parts (a) and (c) were generally good. Candidates correctly identified efficient and inefficient points on the production possibility curve. The level of answers to part (b) was generally good, but a large number of candidates lost marks for failing to identify the change in the price of a product as a movement along the demand curve.

Question 2

On average, candidates scored around 56%. The majority of candidates provided good answers to part (a) but struggled with part (b). The answers provided to part (c) were diverse, with some candidates scoring high marks and others very low marks. The latter showed a poor understanding of the concept of cross-elasticity of demand.

Question 3

On average, candidates scored around 52%. The majority of candidates struggled with part (a) as they seemed to have a poor understanding of the equi-marginal principle and its mathematical formulation. Candidates scored better in parts (b) and (c). The answers provided to part (b) were diverse, with some candidates scoring high marks and others very low marks. On average, the answers provided to part (c) were better.

Question 4

On average, the answers provided were relatively good. The majority of candidates scored high in part (a). The answers provided to part (b) were satisfactory, with the majority of candidates correctly noting that differences in barriers to entry between the two market structures yield different equilibrium outcomes. However, a number of candidates stopped short of comparing the output, costs, prices and consumer welfare in the two market structures. The answers provided to part (c) were satisfactory, with marks being lost for identifying only one (instead of two) circumstances where monopoly may offer efficiency advantages.

Question 5

On average, candidates scored around 56%. The answers provided were diverse, with some candidates scoring high marks and others very low marks. In part (a), a number of candidates mistook monopolistic competition for monopoly. In part (b), a large number of candidates demonstrated a poor understanding of the concept of firm interdependence. While, in part (c), the majority of candidates provided a good explanation of the terms 'perfect collusion' and 'imperfect collusion', but struggled with providing good/any examples.

Question 6

Only one candidate answered this question.

Question 7

Overall, answers to part (a) were correct although the level of detail given in some of the replies was lacking. Most of the candidates correctly identified a number of limitations in the use of GDP to measure the standard of living. In a number of replies, the candidates failed to provide four limitations and the description given for each of the limitations was unsatisfactory. A number of inaccuracies in the replies given to part (c) were observed. Some of the replies failed to mention that the main determinants of long run economic growth are capital, technology and labour.

Question 8

Replies given to part (a) were generally correct, with candidates showing a good understanding of the term 'MPC' and the importance of this in describing the multiplier. Whilst most of the candidates gave a good definition of investment, the description of the determinants of investments was unclear in some of the replies. Replies given to part (c) were characterised by problems in the definition of the deflationary and inflationary gap. Some of the replies to this part of the question focused on fiscal policy rather than on the Keynesian income multiplier model.

Question 9

The answers provided for the definitions of M1, M2 and M3 were mostly correct. Most of the candidates adequately explained the process of credit creation and the impact of a decline in the reserve ratio on the overall level of money supply. The answers provided to part (c) varied. Some of the replies showed a good level of understanding of the tools available at the Central Bank's disposal, while others lacked knowledge of such tools and their application.

Question 10

Replies given to part (a) were generally correct. Most candidates correctly defined both terms and provided an adequate example of a policy to deal with the different unemployment types. Answers provided to part (b) showed a good level of understanding of both terms. In some cases, candidates incorrectly associated stagflation to demand pull inflation. Some of the replies provided to part (c) lacked the necessary detail in explaining the Philips curve relationship, while others, explained the statement given in the question by looking at the Philips curve over the long run.

Question 11

Some of the replies provided to part (a) showed that candidates failed to understand the main differences between merit and public goods. However, most of the examples provided were correct. Most of the replies given to part (b) correctly distinguished between a national debt and a government budget deficit, however, some replies did not distinguish between the two terms and were not familiar with the undesirable consequences of a high and persistent national debt. Most of the replies provided to part (c) lacked the necessary detail and only focused on a shift in the AS curve.

Question 12

The replies provided to part (a) were generally correct. Candidates showed a good level of understanding for each of the concepts and in explaining why a government adopts such policies. Replies given to part (b) of the question were generally correct, with candidates correctly identifying the impact of a euro appreciation against the Chinese Yuan. However, candidates' replies were generally lacking in explaining the components of the balance of payments. Replies given for part (c) generally lacked in detail and the necessary explanation.

PAPER II

Candidates had to answer three out of six questions, with at least one from each section. As was the case in previous years, most candidates preferred to answer two questions from Section A and one question from Section B. The table below summarizes the frequency distribution and the average mark for each question.

Question Number	Number of Replies	Average Mark (%)
1	93	60.8
2	40	58.4
3	85	61.4
4	18	50.8
5	25	35.0
6	75	49.9

Table 3: Average mark of answered Paper II questions for Economics, Special September Session 2020

Question 1

This question tested the candidates' understanding of demand and supply theory for the case of a traditional Maltese delicacy.

The majority of candidates had no difficulty in plotting the demand and supply schedules. As was the case in previous years, a number of candidates struggled with the computation of price elasticity of demand. Furthermore, several candidates had difficulty analysing the market effects brought about by the introduction of a profit tax.

Question 2

Question 2 focused on the theory of the firm through an applied example on the factor input mix between labour and capital for a firm's production.

A small number of candidates demonstrated a lack of ability to compute the average and marginal costs. At the same time, only a small share of candidates managed to give out a complete answer for the last sub-questions pertaining to the effect on costs and profits brought about by an increase in the price of fixed inputs and a decrease in productivity.

Question 3

In question 3 candidates were presented with cost and revenue data of a designer manufacturing firm.

The majority of candidates correctly answered the first four sub-questions however, only a small share of candidates provided a complete answer to the last sub-question.

Question 4

Question 4 tested the candidates' understanding of price theory.

This was the least popular question. The majority of candidates found difficulty in discussing the relationship between the labour market and inflation, with very few candidates identifying the Phillips curve.

Question 5

Question 5 presented a summary of the main macroeconomic forecasts indicators presented by the Ministry for Finance, the Central Bank of Malta and the European Commission.

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This question was the second least popular question, with the lowest average mark scored. In general, candidates' performance was quite poor. The majority of the candidates lacked basic analytical skills to highlight the main reasons for the differences in the three institutions' forecasts.

Question 6

Question 6 related to aggregate demand theory and the multiplier process.

On average, candidates performed relatively well in this question. Mathematical answers were generally well explained. In some cases, candidates lacked the ability to find the equilibrium level of income and the value of the income multiplier. Candidates fared poorly when asked to prove that savings are equal to investment in a closed economy.

Chairperson

Examination Panel 2020