



L-Università
ta' Malta

MATSEC
Examinations Board



Examiners' Report

SEC Economics

Main Session 2019

Examiners' Report (2019): SEC Economics

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A. STATISTICAL INFORMATION

The total number of candidates who registered to sit for Economics was **243**, which is **14** candidates more than in 2018. Of these registrations, **189** opted for Paper IIA and **54** opted for Paper IIB.

Table 1 shows the distribution of grades for the Main 2019 session of the examination

GRADE	1	2	3	4	5	6	7	U	ABS	TOTAL
PAPER A	4	7	30	33	44	-	-	65	6	189
PAPER B	-	-	-	3	2	6	14	18	11	54
TOTAL	4	7	30	36	46	6	14	83	17	243
% OF TOTAL	1.6	2.9	12.3	14.8	18.9	2.5	5.8	34.2	7.0	100.0

Table 1: Distribution of grades for Economics 2019 Main Session

B. GENERAL REMARKS**General Remarks on the Written Examination**

The questions in papers 1 (p1) and 2B (p2B) were structured such that, in general, rubrics (a), (b) required feedback of the Knowledge and Understanding cognitive skill type, rubrics (c), (d) required feedback of the Application cognitive skill type, rubric (e) required feedback of the Analysis cognitive skill type while rubric (f) required feedback of the Evaluation cognitive skill type. The questions in paper 2A (p2A) were similarly structured but this time with one sub-question per cognitive skill. The distribution of marks, in accordance with these cognitive skills, was as follows:

	Knowledge & Understanding	Application	Analysis	Evaluation
Paper 1	31%	33%	17%	19%
Paper 2A	20%	23%	29%	28%
Paper 2B	34%	34%	16%	16%

The differences between the three papers may be appreciated by the percentages in the table above in that the marks in p2A are more biased towards the higher-order cognitive skills than in paper 1 while the marks in p2B are a bit more biased towards the lower-order levels than in paper 1.

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In terms of the syllabus content, there was an even spread in that between papers 1 and 2(A/B), all fourteen parts of the syllabus were targeted as follows:

Syllabus Topic		P1	P2A	P2B
1.	The economic problem	Q1		
2.	Production and costs		Q2	Q1
3.	Forms of enterprise	Q2		
4.	Industrial location		Q3	Q2
5.	Price mechanism		Q1	Q3
6.	Market structures		Q4	Q4
7.	Theory of distribution	Q3		
8.	National income	Q4		
9.	Money ...	Q5		
10.	Government's revenue & expenditure		Q5	Q5
11.	Inflation and unemployment		Q6	Q6
12.	Development & growth		Q7	Q7
13.	International trade	Q6		
14.	Demography		Q8	Q8

In total, the number of candidates that registered for this year's session of SEC 10 (Economics) was close to the average of the last nine years. The number of those candidates who registered for p2A as a percentage of the total was the third highest in the last ten years. The proportions of Unclassified students from both p2A and p2B cohorts were the highest they have ever been in the last ten years, 35% and 33%, respectively. For the p2A candidates, it could well be that some candidates could have fared better if they registered for paper B.

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A statistic that cannot go unnoticed is the number of absentees. 3% of the p2A-registered candidates and 20% of the p2B-registered candidates did not turn up for their examination. For p2A candidates, the average in the last nine years was 2% while for p2B it was 10%.

For p1, the most popular combination chosen by the p2A cohort was Questions 1, 3, 4, 6 with combination 1, 2, 3, 5, a close second. This latter combination was the most popular among p2B candidates. Overall, all possible combinations were chosen by at least 1 candidate. With regard to individual questions, Question 1 was the most popular among p2A candidates while Question 3 was the most popular among p2B candidates. It is to be noted that among both p2A and p2B candidates, the majority attempted 2 Micro and 2 Macro questions. For the p2B candidates, 3 Micro and 1 Macro was a close second.

For p2A, the most popular combination chosen was Questions 1, 2, 4, 5 with combination 1, 2, 4, 8 a close second. Albeit, 49% of candidates chose the combination of 2 Micro and 2 Macro questions, with 35% choosing 3 Micro and 1 Macro. With regard to individual questions, Question 4 was the most popular.

For p2B, the most popular combination chosen was Questions 3, 5, 6, 8. Albeit, 42% of candidates chose the combination of 2 Micro and 2 Macro questions, with 30% choosing 3 Micro and 1 Macro. With regard to individual questions, Question 8 was the most popular.

The average overall score in percentage terms for each cognitive skill was as follows:

	Paper	Knowledge & Understanding	Application	Analysis	Evaluation
P2A Candidate	1	58%	54%	38%	38%
	2A	36%	34%	37%	31%
P2B Candidate	1	32%	31%	14%	19%
	2B	31%	20%	22%	24%

As expected, the percentages for Analysis and Evaluation (the higher-order cognitive skills) were lower than those for Knowledge and Application (the lower-order skills). It should be noted that for the p2A candidates, the percentages for the lower-order cognitive skills were significantly lower in paper 2A than in paper 1.

On the qualitative side, there seems to be a general lack of understanding of key terms used in Economics. These terms are to be “known and understood” as per the Assessment Objective of the syllabus.

A trend that was seen throughout both papers is that a good number of candidates fail to read and/or understand the question well.

Percentages quoted in C, below, are from the candidates who attempted the particular question.

C. COMMENTS ON PAPER I AND PAPER II

Paper I

Note: Average Marks obtained per question, categorised for Option A and Option B, are shown below.

Question 1

Option A: 13.8/25

Option B: 9.3/25

- a) 43% of p2A candidates and 24% of p2B candidates did associate this question with the problem of scarcity however they stopped there and did not develop this problem to show that because of scarcity, society is forced to choose what, how and for whom to produce and that such choice involves a trade-off (opportunity cost).
- b) and (c) were generally well answered.
- d) To show whether opportunity cost increases or decreases, the candidates were expected to calculate opportunity cost between each of the different combinations and to state the opportunity cost ratios in the form 1 new road : X trees. Only two candidates managed this. Most of the others seemed to have given up on this question and simply stated that producing more new roads means leaving less space for planting trees. Such statements illustrate opportunity cost and *not* that opportunity cost is increasing.
- e) Only six p2A candidates managed four appropriate differences between merit goods and public goods. 27% of p2A candidates and 51% of p2B candidates did not manage one appropriate difference.
- f) 22% of p2A candidates and 5% of p2B candidates came up with three appropriate advantages of market economies and two appropriate advantages of planned economies.

Question 2

Option A: 10.4/25

Option B: 5.4/25

- a) 35% of p2A candidates and only 8% of p2B candidates were able to mention two appropriate features of a partnership and of a company. In this question, candidates were expected to name the general features of partnerships and of companies. Some, however, chose to mention features of a partnership en nom collectif only (ex. owners have unlimited liability) and of public companies only (ex. "there is no maximum amount of owners"). Others state that a company has limited liability when it is the owners (shareholders) that have their liability towards the debts of the company limited to the amount of capital that they have promised to contribute.
- b) 37% of p2A candidates and 62% of p2B candidates did not score any marks in this part of the question. Some candidates confuse internal growth with internal finance.
- c) Generally well answered though 38% of p2A candidates and 35% of p2B candidates could come up with only one explanation of ways how consumers can benefit from horizontal mergers. Some candidates stated benefits of horizontal mergers from the point of view of the firm. Such answers were incorrect since this was an application question so the benefits should have been given from the point of view of consumers.

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- d) Candidates must learn to watch out for key words in rubrics. In this case, “the” and “main” were key words. The rubric asked for “*the two main* external sources of finance for a public listed company” being the issue of shares and the issue of bonds (debentures). This does not mean that a public listed company may not or does not borrow from banks or that it does not engage in leasing or hire-purchase. However, these latter sources of finance are NOT the *two main* external sources of finance for a quoted company.
- e) The p2A candidates were evenly divided on this one. One-third were able to give two appropriate reasons why a company would want to enter into a conglomerate, another one-third were able to give one reason while the other third gave two general reasons for any type of integration.
- f) Many candidates seemed to have a prepared answer to a different question, being “Compare and contrast public sector and private sector firms.” Thus they failed to compare these sectors in terms of the functions of the entrepreneur.

Question 3

Option A: 13.7/25

Option B: 7.2/25

- a) Most p2A and p2B candidates gave factors affecting the demand and supply in commodity markets rather than in labour markets.
- b) Very few students have knowledge of the role of an employers' association.
- c) Was very well answered while (e) was generally well answered.
- d) Half the p2A candidates did not obtain half a mark for this question. Some do not label the axis in the diagrams. Some candidate name the conditions as they would be named in the commodity markets. It is to be noted that this was an Application question, which required candidates to note that ‘excess demand’ in labour markets is called ‘vacancies’ and ‘excess supply’ is called ‘unemployment’. Some answers would have been correct if this question was about commodity markets or markets in general.
- f) 20% of p2A candidates and 40% of p2B candidates did not score any marks in this part of the question.

Question 4

Option A: 10.7/25

Option B: 4.4/25

- a) and (d) were generally well answered especially their part (i).
- b) The question was about difficulties in the measurement of GDP. Thus answers referring to difficulties in interpreting the GDP such as “inflation”, “pollution”, etc. were not entertained.
- c) Quite sad to see that 17% of p2A candidates and 47% of p2B candidates could not even identify “exports” as an injection.
- e) Only 11 candidates between p2A and 2B seemed to have understood what was required from this question, namely that real and nominal GDP would be equal if there is no inflation/deflation or in the base year.

- f) 40% of p2A candidates and 60% of p2B candidates did not seem to have understood what was required from this question namely that measuring GDP by using more than one approach provides a cross-check and that it gives more than one perspective of the total recorded production of a country.

Question 5

Option A: 12.7/25

Option B: 5.9/25

- a) and (d) were generally well answered, although in (a) a number of candidates erroneously explained that the Central Bank of Malta is an authority controlling banks. In fact, it is the MFSA which is the authority in Malta that controls financial institutions, including banks.
- b) 5 candidates were able to list four types of organisations involved in the financial industry in Malta other than the CBM. A number of candidates wrongly cited Malta Enterprise and Jobsplus as financial institutions.
- c) 20% of p2A candidates and half the p2B candidates did not realise that this question was referring to the barter system of exchange.
- e) Only 3 candidates were able to give a full and satisfactory answer to this question namely that the CBM has similar functions to commercial banks (accepting deposits, transferring money between accounts and lending money) but that the clients are different. Some candidates brought this out but did not follow it up with other functions of the CBM that commercial banks do not have, such as implementing decisions on monetary policy on behalf of the Eurosystem in Malta.
- f) 20% of p2A candidates and 40% of p2B candidates did not bring up one acceptable reason for commercial banks charging interest on loans such as interest being the 'price of money'.

Question 6

Option A: 12.0/25

Option B: 5.0/25

- a) was very well answered while (b), (c) and (d) were generally well answered.
- e) A large number of candidates attempted to explain two differences between the Balance of Payments and the Current Account Balance rather than between the Balance of Trade and the Current Account Balance.
- f) A number of candidates were giving *effects* on the global market of an appreciation of the Euro in terms of the US Dollar when the question was asking for *causes* of such appreciation. The sketch graphs also left a lot to be desired, ex. incorrect or missing labelling of axis.

Paper IIA

Note: The Average Marks obtained per question are shown below.

Question 1

Average: 8.4/25

- a) In general, this was well answered with 23% of candidates getting full marks.
- b) This question was not that well answered with 28% of candidates getting no mark at all.
- c) There was no candidate who could give a full answer to this question. The maximum mark awarded was 4/7. The relationship between price, total revenue/expenditure and PED is fundamental in Economics. Its application is used not only in commodity markets but also in foreign exchange markets.
- d) No candidate defined 'price ceiling'. Most candidates did not evaluate whether there would be a problem if a price ceiling is set at or above the equilibrium price.

Question 2

Average: 13.0/25

- a) Only half of the candidates managed 3/6 marks or more for this question. Explanations of the law of diminishing returns were quite crude with a number of candidates confusing diminishing marginal returns (a short-run phenomenon) with returns to scale (a long-run phenomenon). A large number of candidates could not identify the number of employees at which diminishing returns set in, the classic example being the identification of negative returns rather than diminishing returns.
- b) This question was generally well answered with nearly half the cohort getting full marks.
- c) A large number of candidates gave appropriate answers to the first part. Answers to the second part were much less appropriate with only around 12% of candidates able to explain clearly the relationship between Marginal Cost and Average Cost, including an appropriate sketch graph.
- d) Half the candidates were able to recommend a solution to the factory owner to overcome diminishing returns but were not able to explain clearly why diminishing returns happen "in this situation" since they did not identify "this situation" as being the short-run.

Question 3

Average: 14.0/25

- a) 57% of candidates did not obtain half a mark for this question with most of them mentioning MFSA or MEPA or Planning Authority as the institution that helps multinationals set up businesses in Malta rather than Malte Enterprise (ME).
- b) In general, this was well answered with 23% of those who attempted it getting full marks.
- c) In contrast to (a), above, this was the second best-answered sub-question from the whole paper, with 54% of candidates getting full marks.
- d) In general, this was well answered with 34% of candidates getting full marks.

Question 4

Average: 14.0/25

- a) Nearly all the candidates correctly identified Perfect Competition as the type of market structure. However only 4% of the candidates fully described the role of profit in a market economy as being the signal for entrepreneurs to move their resources to those industries where profit is increasing and out from those industries where profit is decreasing.
- b) In general, this was well answered with 29% of candidates getting full marks.
- c) The best-answered sub-question from the whole paper, with 57% of candidates getting full marks.
- d) 37% of candidates did not get any marks for this question, which was about the benefits of Perfect Competition to the entrepreneur and the benefits or otherwise to consumers.

Question 5

Average: 10.0/25

- a) Part (i) was very well answered. "Selling of passports" was accepted as a non-fiscal source of government revenue. Some candidates named sources of finance instead of sources of government revenue. 20% of candidates were able to name and explain two appropriate qualities of a good tax.
- b) 52% of candidates could not list more than two effects of an increase in government revenue on the budget deficit and could not list any appropriate effect on the national debt. No candidate managed three appropriate effects on each.
- c) The maximum mark here was 7.5/9. 55% of candidates did not get more than 4 marks for this question. Many candidates wrongly explained that VAT is a proportional tax.
- d) 7% of candidates came up with three appropriate advantages of a direct tax and two appropriate advantages of an indirect tax.

Question 6

Average: 8.4/25

- a) Some candidates wrote that unemployment refers to "those who are not part of the labour force/supply" mistaking them for the inactive population. Some others refer to "people without work". Such statements show a lack of understanding of key terms used in Economics. Only 25% of candidates managed to give two ways how government would know how many persons are unemployed.
- b) 40% of candidates could not show how any of the ways they mentioned in (a)(ii) may lead to inaccurate information about the number of persons unemployed.
- c) 34% of candidates did not give any appropriate distinguishing features of cyclical and structural unemployment.
- d) Only 18% of candidates managed half the marks or more for this question.

Question 7

Average: 12.0/25

- a) Of the 42 candidates who chose to answer this question, 17 candidates did not give an acceptable definition of economic growth. No candidate bothered to define economic growth by reference to an outward shift of the PPC/PPB.
- b) 29% of candidates did not give any appropriate factor influencing economic growth. Only 2 candidates managed all six factors.
- c) Very well answered. In percentage terms, this was the sub-question with the highest proportion of candidates with full marks, 60%.
- d) By contrast, this was one sub-question with the highest proportion of candidates with no mark at all. The average mark for this sub-question was 1.7/8. No candidate brought up an appropriate reason why economic growth may be desirable.

Question 8

Average: 11.0/25

- a) 88% of candidates gave an acceptable definition of net migration. 50% of candidates were also able to name two other demographic statistics influencing the size of a country's population. However only 17% of candidates were able to name the Natural Growth Rate (NGR) as the difference between the birth rate and the death rate.
- b) 47% of candidates did not use the statistics in the extract to show that Malta has an ageing population.
- c) 74% of candidates gave an acceptable definition of dependent population. 49% of candidates also gave an acceptable definition of dependency ratio. However only 2 candidates analysed the relationship between changes in the dependency ratio and changes in the dependent population, which was ultimately the main thrust of the question.
- d) 10% of candidates were able to give four reasons and four effects of a decrease in the birth rate.

Paper IIB

Note: The Average Marks obtained per question are shown below.

Question 1

Average: 11.0/25

- a) 20% of candidates gave acceptable answers for both fixed and variable cost.
- b) 50% of candidates accurately completed the columns for Total Product and Marginal Product for each level of employment of labour.
- c) By contrast, only 10% of candidates identified and properly explained diminishing (marginal) returns.
- d) 65% of candidates did not identify the short run. Those who did identify the situation as one of short run, did not explain their answer properly or did not refer to the data in the question.
- e) 30% of students did not give a clear comparison nor a clear distinction between the primary and secondary stages of production. Most candidates just describe both rather sketchily without bringing out any comparison or contrast.
- f) 55% of candidates gave two appropriate advantages of division of labour while 20% gave two appropriate advantages and two appropriate disadvantages.

Question 2

Average: 5.6/25

- a) 65% of candidates brought out the aspect of multinationals being firms operating in a number of countries. However only 12% added that they own facilities outside their country of origin.
- b) 71% of candidates did not properly explain the main role of Malta Enterprise and did not name Regional Policy as the policy that governments use to influence industrial location.
- c) 12% of candidates gave a proper answer to this question with proper labelling.
- d) 6% of candidates gave proper functions of the Planning Authority. However no candidate explained properly how the Planning Authority (PA) can affect the choice of location for a business.
- e) 46% of candidates gave at least two acceptable comparisons or two acceptable differences between geographical and occupational mobility.
- f) 12% of candidates gave two appropriate reasons why a foreign company may choose Malta as its country of operation. 47% gave just one.

Question 3

Average: 9.2/25

- g) 20% of candidates managed full and acceptable definitions of demand and supply.
- h) 50% of candidates drew an appropriate diagram of an inelastic demand curve but did not give an acceptable definition of Price Elasticity of Demand.
- i) No candidate got full marks for this question. Only 1 candidate got 4 correct out of 5.
- j) 38% of candidates were awarded full marks for this question while 50% were not awarded any marks.
- k) 8% of candidates correctly identified the scenarios to be of elastic demand and inelastic demand, respectively and were able to give a full and appropriate explanation as to their choice. A good

number of candidates erroneously explained that demand is price inelastic because the coefficient has a negative sign.

- l) 65% of candidates did not give an appropriate explanation as to why is it important for sellers to be aware of the price elasticity of demand of the products that they are selling.

Question 4

Average: 6.5/25

- a) 30% of candidates stated four appropriate features of a perfectly competitive market structure. 40% did not state any appropriate feature.
- b) 25% of candidates correctly described two restrictions (barriers) to the entry of new firms into an industry. 60% did not properly describe one barrier to entry.
- c) The worst answered sub-question in this paper. 18 out of the 21 candidates who attempted this question did not bring up normal and abnormal (super-normal) profit.
- d) 30% of candidates did not identify the monopoly structure from the given short description.
- e) 15 out of the 21 candidates who attempted this question did not seem to recognise the given situation of price discrimination and, consequently, did not give any appropriate reason for charging different prices in markets with different demand conditions.
- f) 62% of candidates did not give at least one advantage of monopoly.

Question 5

Average: 7.0/25

- g) 59% of candidates did not list any appropriate source of government revenue other than the ones mentioned in the extract.
- h) No candidate gave all six appropriate answers to this question. Only 1 candidate managed five.
- i) 20% of candidates gave two appropriate examples of a direct tax and two appropriate examples of an indirect tax from the given extract. Another 20% gave one appropriate example of a direct tax and one appropriate example of an indirect tax while another 20% did not give any.
- j) 38% of candidates did not express a proper meaning of the term 'budget deficit' and, also, did not explain clearly how an increase in tax revenue influences a government budget deficit. 43% of candidates did express a proper meaning of the term 'budget deficit'. However, they did not explain clearly how an increase in tax revenue influences a government budget deficit. The other four candidates explained that an increase in tax revenue may turn a government deficit into a budget surplus, however none explained that this could lead to a balanced budget or that a budget deficit may persist, though at a lower level.
- k) Two candidates clearly distinguished between Equity and Economy as principles of taxation. 70% of the candidates either did not attempt this question or wrote in general about the principles of taxation.
- l) 38% of candidates expressed a proper meaning of the term 'budget surplus', in contrast to sub-question (d), above. As in (d), above, many correctly explained that a budget surplus may lead to the payment of government debt. Few explained that it may be reduced rather than completely paid off.

Question 6

Average: 7.3/25

- a) 36% of candidates did not list any type of unemployment while 48% listed four types.
- b) With reference to the definition of unemployment, the same comments made for question 6(a) in paper 2A apply here as well.
- c) The worst answered sub-question in this paper with 72% not even scoring half a mark.
- d) 64% of candidates did not state one fiscal policy measure that government may use to help control unemployment. Only one candidate got full marks for this question.
- e) 60% of candidates did not give one appropriate difference between unemployment and inflation. Candidates should note that giving differences between unemployment and inflation is not tantamount to giving a definition of unemployment and one of inflation.
- f) 3 candidates managed full marks for this question. 40% of candidates, however, did not explain clearly any advantage or disadvantage of unemployment to the unemployed person.

Question 7

Average: 7.3/25

- a) One-third of the candidates gave an acceptable definition of economic growth or gave an appropriate answer as to how economic growth is measured but not both. Another one-third gave a very general definition of economic growth and stopped there. The other one-third neither gave an acceptable definition of economic growth nor did they give an appropriate answer as to how economic growth is measured.
- b) In contrast to (a), above, two-thirds of the candidates gave an excellent definition of GDP per capita but were not so clear on their definition of real GDP.
- c) One-third of the candidates got full marks for this sub-question.
- d) The highest mark awarded for this question was 2 out of 6. No candidate identified any demand-side factor that may influence economic growth and the illustration of economic growth through the use of PPCs left a lot to be desired, ex. the non-labelling of the axis.
- e) Two-thirds of the candidates did not give any appropriate difference between developing and developed countries.
- f) One-third of candidates did not give any appropriate advantage or disadvantage of economic growth. Another one-third gave one appropriate advantage or disadvantage while the other one-third gave at least two appropriate advantages or disadvantages.

Question 8

Average: 11.0/25

- a) 14 out of the 37 candidates who attempted this question did not give acceptable definitions of birth rate and death rate. 7 candidates however gave excellent answers.
- b) The best answered sub-question in all the paper with half the candidates getting full marks.
- c) Only 2 candidates gave two appropriate effects of an ageing population on both government financing and individuals.
- d) Four candidates gave appropriate answers to this question. 62% of candidates did not give any appropriate demographic statistic that could be used to show whether a country is a developed or developing country and, consequently, did not state whether the statistic should be high or low to show that the country is developed.
- e) 8 out of 37 candidates appropriately described four factors that can influence life expectancy. 11 candidates described three factors, 7 candidates described two while 4 candidates described one factor.
- f) 11% of candidates got full marks for this sub-question while 38% got no mark at all. 33% of candidates got about half the marks.

D. CONCLUDING COMMENTS

The Examiners' Panel feel that the level and quality of candidates' answers was poor, with several candidates scratching the surface whilst not having understood the true concepts in economics. With further reasoning and understanding of the subject matter in the syllabus, most students could have better applied their knowledge.

Chairperson
Examination Panel 2019