



L-Università
ta' Malta

MATRICULATION AND SECONDARY EDUCATION CERTIFICATE
EXAMINATIONS BOARD

**ADVANCED MATRICULATION LEVEL
2026 FIRST SESSION**

SUBJECT:	Economics
PAPER NUMBER:	I
DATE:	29 th April 2026
TIME:	4:00 p.m. to 7:05 p.m.

Answer **FOUR** questions. **TWO** from **each** section. All questions carry equal marks. This paper carries 60% of the global mark.

SECTION A

Answer TWO questions from this section.

1. a. Using a production possibility frontier diagram, explain the concepts of scarcity and opportunity cost. (5)
- b. Explain the concept of market equilibrium and how the price mechanism in a free market leads to automatic adjustments that restore equilibrium. Use a diagram to illustrate your answer. (10)
- c. Explain and show graphically the effect on the equilibrium price and quantity of:
 - i. a successful advertising campaign promoting the consumption of healthy foods, such as fruit; (5)
 - ii. unfavourable weather conditions that reduce fruit production. (5)

(Total: 25 marks)

2. a. With the aid of a diagram, explain the effect of a price floor imposed by government. Using **ONE** real-world example, identify **TWO** problems associated with setting a minimum price. (10)
- b. Explain which elasticity measure is used to determine whether goods are:
 - i. normal or inferior, providing **ONE** practical example for **each**; (5)
 - ii. substitutes or complements, providing **ONE** practical example for **each**. (5)
- c. If a firm sells a product with a price elasticity of demand of -2, will an increase in its price result in higher or lower total revenue? Explain your answer. (5)

(Total: 25 marks)

3. a. Explain the principle of diminishing marginal utility and how this relates to the utility-maximising behaviour of consumers. (9)
- b. Although both short-run and long-run average cost curves are typically U-shaped, the economic reasons behind their shapes are different. Explain this statement. (9)
- c. At what level of output do firms maximise profits? Explain your answer. (7)

(Total: 25 marks)

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4. a. Compare the characteristics of perfect competition with those of a monopoly. (9)
- b. Compare the long-run equilibrium of a firm under perfect competition with that of a monopoly. Use **ONE** diagram for **each** to illustrate your answer. (12)
- c. Identify **TWO** advantages of perfect competition and **TWO** advantages of a monopoly. (4)
- (Total: 25 marks)**
5. a. Explain the difference between normal profits and supernormal profits. Do firms in an oligopoly earn normal or supernormal profits in the long run? Why is this the case? (10)
- b. Discuss the equilibrium of a firm under monopolistic competition. Distinguish between the short run and the long run, using **ONE** diagram for **each**. (10)
- c. In which market structure is firm interdependence a key feature? Explain this concept. (5)
- (Total: 25 marks)**
6. a. Identify **THREE** factors that determine the demand for labour and **THREE** factors that determine the supply of labour. (6)
- b. Using a diagram, explain the backward-bending supply curve of labour. (10)
- c. Up to what point will a profit-maximising firm continue to employ labour? Explain your answer with reference to marginal revenue product and marginal cost of labour. (9)
- (Total: 25 marks)**

SECTION B

Answer TWO questions from this section.

7. a. Explain market failure. (3)
- b. Identify and explain **THREE** causes of market failure. (6)
- c. With reference to a negative externality in production, draw a fully labelled diagram to show that MSC is **not** equal to MPC. Explain how this results in over-production and a deadweight welfare loss. Indicate the deadweight welfare loss on the diagram. (10)
- d. Describe **TWO** forms of government intervention that may be used to correct market failure and explain how **each** measure is intended to correct it. (6)
- (Total: 25 marks)**
8. a. Explain the **THREE** methods used to calculate the Gross Domestic Product (GDP), outlining the main components of **each** method. (10)
- b. Explain how economic growth is measured. Then distinguish between economic growth resulting from:
- i. an increase in the quantity of factors of production;
 - ii. an increase in the productivity of factors of production. (5)
- c. Discuss **TWO** policies that a government may implement to promote long-run economic growth. (6)
- d. It is increasingly recognised that GDP is not a complete measure of economic welfare. Discuss **TWO** limitations of using GDP to measure economic well-being. (4)
- (Total: 25 marks)**

9. a. Define inflation and explain how it is measured, referring to **TWO** price indices used in practice. (9)
- b. Distinguish between demand-pull inflation and cost-push inflation. For **each** type, explain **ONE** possible cause. (8)
- c. Using an AD–AS diagram, illustrate **ONE** type of inflation (either demand-pull or cost-push). Explain the likely effects on the price level and real national output. (8)

(Total: 25 marks)

10. a. Draw a circular flow of income diagram for an open economy including households, firms, government, financial institutions and the foreign sector. Using your diagram, explain briefly the main flows and show that macroeconomic equilibrium occurs when total withdrawals equal total injections ($W = J$). (12)
- b. Explain the meaning of the income multiplier and identify the main factors which determine its size. (5)
- c. The government introduces an injection into the economy by increasing expenditure on the health sector. Using the circular flow of income, explain the effects on national income and how the economy moves to a new equilibrium. (8)

(Total: 25 marks)

11. a. Explain what is meant by automatic stabilisers. Distinguish between automatic stabilisers and discretionary fiscal policy. (6)
- b. A country is experiencing slow economic growth and rising unemployment. The government undertakes an expansionary fiscal policy by reducing taxes. Using the concepts of aggregate demand and aggregate supply, explain how this policy is likely to affect national output, unemployment and inflation. (11)
- c. Explain what is meant by contractionary monetary policy. Describe **TWO** measures a central bank may use to implement such a policy and explain how these measures are intended to reduce inflationary pressures. (8)

(Total: 25 marks)

12. a. Explain the principle of comparative advantage and show, using a simple two-country, two-good numerical example, how **TWO** countries can gain from trade even if one country has an absolute advantage in producing both goods. (8)
- b. Explain why economists often support free trade. Then explain why a government might introduce **ONE** protectionist measure (for example, a tariff or a quota). In your answer, refer to the likely effects on consumers, domestic producers and overall efficiency. (8)
- c. Distinguish between a free trade area and a customs union. With reference to the Eurozone, explain **THREE** ways in which a currency union may positively affect trade between member states. Explain how trade flows are recorded in the balance of payments. (9)

(Total: 25 marks)



SUBJECT:	Economics
PAPER NUMBER:	II
DATE:	30 th April 2026
TIME:	9:00 a.m. to 12:05 p.m.

Answer **THREE** questions, at least **ONE** from Section A and **ONE** from Section B. All questions carry equal marks. This paper carries 40% of the global mark.

SECTION A

1. The following equation represents the demand for electric bicycles:

$$Q_D = 12000 - 0.8P_D + 0.5P_S + 0.002Y$$

where:

Q_D is the quantity demanded of electric bicycles (units);

P_D is the average price of electric bicycles;

P_S is the average price of conventional bicycles;

Y is average personal income.

- Plot the demand function by assuming that P_S is equal to €600, Y is equal to €20,000, and the price P_D takes values from €1,000 up to €8,000. Does the demand function conform to the law of demand? Explain your answer. (6)
- Assuming that P_S is equal to €600 and Y is equal to €20,000, calculate the price elasticity of demand when P_D is equal to (i) €1,500 and (ii) €3,000. Explain how the price elasticity of demand changes as the price level decreases. (7)

Suppose that the supply equation for electric bicycles is:

$$Q_S = 1500 + 1.5P_D + T$$

where:

Q_S is quantity supplied (units);

P_D is the average price of electric bicycles;

T is an index of production technology.

- Assuming that T takes the value of 1,640 and the price P_D takes values from €1,000 up to €8,000, plot the supply curve on the same graph where you plotted the demand curve. Find the equilibrium price and quantity. (6)
- Suppose that the government introduces a subsidy of €400 per electric bicycle paid to producers to encourage environmentally friendly transport. Explain, using the demand and supply diagram, how this subsidy affects the market for electric bicycles. (6)
- What is the new equilibrium price and quantity following the introduction of the government subsidy (€400 per electric bicycle) assuming that P_S is equal to €600, Y is equal to €20,000 and T takes the value of 1,640? (8)

(Total: 33 marks)

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2. A newly set-up firm is considering the number of workers it needs to employ to produce safety helmets for emergency services. It faces the following costs and output figures:

Table 1

Number of Workers	Labour Costs (Euro per hour per employee)	Total Output per hour (units)
30	60	324
36	66	372
42	72	408
48	78	432
54	84	450
60	90	468
66	96	480
72	102	486
78	108	492
84	114	495

Assume that safety helmets sell at €48.0 per unit and that each employee works 8 hours per day, 5 days per week.

- Construct a table to show the Total Cost of Labour per day (TCL), Marginal Cost of Labour (MCL), the Total Revenue Product per day (TRPL), and the Marginal Revenue Product (MRPL). (8)
- Assume labour is the only cost of production. How many workers will the firm employ to maximise profits? At this level of employment, calculate the firm's hourly wage bill, hourly revenue and profit per unit. Explain your answer. (10)

Suppose the firm is considering offering the possibility for each worker to work up to 2 hours per day overtime, over and above 8 hours daily. However, each worker cannot work more than 48 hours per week. The rate per hour for overtime is 1.545 times the normal hourly rate. Assume that total output per hour remains unchanged, but employees can work more in a relaxed and peaceful environment.

- Would the introduction of overtime change the profit-maximising level of employment found in (b)? Show your workings. (7)
- If the firm decides to increase the selling price by €4.36 per unit, would this change the answer provided in (c)? Why or why not? Discuss your answer using calculations. (8)

(Total: 33 marks)

3. Table 2 contains data on the costs and revenues of a designer glass manufacturing firm.

Table 2

Output (units per month)	Price received per unit (€)	Total Cost (€)
10	162	804
20	144	1302
30	126	1694
40	108	2232
50	90	3228
60	72	4884
70	54	7400
80	36	10986

- Calculate the marginal cost (MC) and the marginal revenue (MR) for every level of output. (8)
- Determine the profit-maximising level of output. Confirm your answer by comparing Total Revenue (TR) and Total Cost (TC). (6)
- Is average profit per unit maximised at the same output as total profit? Using your calculations, explain why the output level that maximises total profit may differ from the output level that maximises average profit. (5)
- Is the profit-maximising output level the same as the revenue-maximising output level? Explain your answer by plotting the relevant curves on the graph paper provided. (5)
- Some economists argue that profit maximisation is **not** the main objective of firms, as businesses are increasingly concerned with environmental sustainability, worker welfare, and social responsibility. Discuss whether profit maximisation remains a realistic economic objective for firms in modern economies. (9)

(Total: 33 marks)

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SECTION B

4. According to the Autumn 2025 Economic Forecast for Malta published by the European Commission, Malta's economy is expected to sustain strong growth in 2025, driven by robust domestic consumption and tourism. Economic growth is expected to reach 4.0% in 2025, moderating to 3.8% in 2026 and 3.5% in 2027. Inflation is projected to slow down while the labour market remains tight. The government deficit is expected to decrease to 3.2% of GDP in 2025, 2.8% in 2026, and 2.6% in 2027. The debt-to-GDP ratio is expected to stabilise at around 47.3%.

Reference: European Commission (2025), Autumn 2025 Economic forecast for Malta.

- a. Why does the European Commission produce fiscal forecasts of the Maltese economy? What fiscal rules must Malta adhere to as a member of the European Union? Explain in detail. (7)
- b. Economic growth is expected to reach 4.0% in 2025, moderating to 3.8% in 2026 and 3.5% in 2027...labour market remains tight.

Reference: European Commission (2025), Autumn 2025 Economic forecast for Malta.

What does it mean to have a tight for a labour market? What are the theoretical macroeconomic effects of labour markets which are tight? (8)

- c. How come economic growth is projected to decelerate between 2025 and 2027 but at the same time the deficit ratio is declining from 3.2% of GDP in 2025 down to 2.6% in 2027? (6)
- d. Discuss the relationship between inflation and:
 - i. economic growth.
 - ii. the current account balance.
 - iii. debt. (12)

(Total: 33 marks)

5. In a press release issued by the National Statistics Office (NSO) on registered employment for August 2025, it was reported that registered full-time employment totalled 298,738 in August 2025, an increase of 4.1 per cent over the same corresponding period a year earlier. Part-time as a primary job amounted to 38,859, an increase of 5.1 per cent when compared to the same period in 2024.

It was also reported that private sector full-time employment went up by 4.0 per cent over a period of one year reaching 243,998. Public sector full-time employment increased by 4.2 per cent since August 2024 totalling 54,740.

Compared to August 2024, full-time employment for males went up by 3.8 per cent amounting to 179,850, while that for females increased by 4.4 per cent reaching 118,888.

Reference: National Statistics Office (January 2026). Registered Employment: August 2025.

- a. What could have led to increases in registered employment? Does this imply that registered unemployment also decreased? (6)
- b. Are there any other employment and unemployment data sources issued by the National Statistics Office? If yes, do you expect any differences between the datasets? Why or why not? (6)
- c. Calculate the share of public sector full-time employment in total registered full-time employment. If private sector full-time employment went up by 4.0 per cent over a period of one year, reaching 243,998, what was the level of private sector full-time employment in August 2024? (7)
- d. According to this statistical release, the growth rate of full-time female employment is higher than the growth rate of full-time male employment. Discuss whether this necessarily implies that there are more females than males in the population. In your answer, explain your reasoning using appropriate economic and statistical concepts. (6)
- e. In Malta, wage appreciation has remained relatively moderate despite historically low unemployment rates. This seems to contradict economic theory. Discuss **ONE** potential factor that could possibly explain this phenomenon. (8)

(Total: 33 marks)

Please turn the page.

6. Assume that the following equations represent key economic relationships for a closed economy:

GDP identity:	$Y = C + I + G$	eq. (1)
Consumption function:	$C = 20 + 0.7 (Y - T)$	eq. (2)
Tax equation:	$T = tY$	eq. (3)
$I = 40$		eq. (4)
$G = 35$		eq. (5)
$T = 20$		eq. (6)
$t = 0.2$		eq. (7)

where:

Y = National Income
 C = Consumption Expenditure
 I = Investment Expenditure
 G = Government Final Consumption Expenditure
 T = income tax
 t = marginal tax rate

All variables are measured in millions of euro.

- Determine which variables represent injections (final expenditures) and which represent leakages (withdrawals). (5)
- Define the Marginal Propensity to Consume, the Marginal Propensity to Save and Autonomous Consumption. What are the values taken by **each** in the equations above? (6)
- Using the equations above, find the equilibrium value of income (Y). (8)
- Show that in equilibrium, savings is equal to investment in the economy. (5)
- Discuss the implications of:
 - the tax rate (t) equal to 0.
 - a change in investment from 40 to 50.
 - a change in government expenditure from 35 to 30. (9)

(Total: 33 marks)