L-Università ta' Malta

MATRICULATION AND SECONDARY EDUCATION CERTIFICATE EXAMINATIONS BOARD

ADVANCED MATRICULATION LEVEL
2025 SECOND SESSION

SUBJECT:	**Economics**
PAPER NUMBER:	I
DATE:	29th August 2025
TIME:	9:00 a.m. to 12:05 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. "Scarcity is the fundamental problem that economics seeks to understand and manage, whether at the level of individuals, businesses, or governments". Discuss. (5)

   b. What is market equilibrium? How can shifts in demand lead to a new equilibrium? (10)

   c. Explain and demonstrate graphically:
      i. the effect of an increase in income on the equilibrium price and quantity of electronics. (5)
      ii. the effect of an increase in income on the equilibrium price and quantity of canned food. (5)

(Total: 25 marks)

2. a. What is the purpose of price controls? Provide **TWO** different examples as well as resultant effects. (10)

   b. If the price of a product drops by 10% and the quantity demanded increases by more than 10%, what will happen to the total revenue of a firm? Explain your reasoning. (10)

   c. Cross price elasticity of demand between coffee and tea is negative. Is this true or false? Explain your reasoning. (5)

(Total: 25 marks)

3. a. An additional unit of consumption of any good will always yield an increase in both total and marginal utility. Discuss this statement in the context of the Law of Diminishing Marginal Utility. (10)

   b. Distinguish between short run and long run in production. (5)

   c. Discuss two reasons why economies of scale are significant for business. Provide **TWO** examples of how economies of scale can occur, **ONE** for a manufacturing firm and **ONE** for a retail outlet. (10)

(Total: 25 marks)

Please turn the page.

© The MATSEC Examinations Board reserves all rights on the examination questions in all examination papers set by the said Board.

4. a. Outline **FIVE** characteristics underlying perfect competition. (5)

   b. Discuss the long run equilibrium of a perfectly competitive firm. (10)

   c. Compare the long run equilibrium of monopoly with that of perfect competition. How do output, costs, price and consumer welfare compare? (10)

(Total: 25 marks)

5. a. What is an oligopoly? Provide **ONE** example. (5)

   b. How can firms collaborate under oligopoly? (10)

   c. What is the difference between a duopoly and a monopoly? (10)

(Total: 25 marks)

6. a. Human capital is a significant determinant of wages. Why? (5)

   b. What is the difference between demand for labour and supply of labour? (10)

   c. How are wages determined in a free market economy? (10)

(Total: 25 marks)

SECTION B

Answer TWO questions from this section.

7. a. Explain the different methods used to measure aggregate GDP. How is GDP different from GNP (or GNI) and under what circumstances would GNP be larger than GDP? (7)

   b. Explain how the circular flow of income could be affected by an economic shock such as the COVID-19 pandemic, particularly due to a decrease in exports of goods and services. In your response, identify the relevant leakages and injections, and explain how these changes could impact the overall economy. (9)

   c. Discuss the **THREE** main determinants of long run economic growth. Discuss **ONE** cost associated with the process of economic growth. (9)

(Total: 25 marks)

8. a. Discuss **THREE** factors that can cause the consumption function to shift. (8)

   b. Explain, by referring to the accelerator principle, why investment behaviour is viewed as an important component of aggregate demand expenditure and why it is also considered the most volatile component. (8)

   c. Explain, within the context of the Keynesian income multiplier model, how a decrease in government spending would impact the equilibrium level of national income in the economy. Would this effect be larger or smaller if the marginal propensity to consume were to decrease? Explain your answer. (9)

(Total: 25 marks)

9. a. Distinguish between the **THREE** motives for holding money. (7)

   b. What are the main instruments and tools a Central Bank has at its' disposal to undertake the required monetary policy. (9)

   c. Explain, by means of a diagram, how the central bank can implement open market operations in order to increase the equilibrium interest rate in the economy. (9)

(Total: 25 marks)

10. a. Explain the difference between cost-push and demand-pull inflation. An increase in the price of utility tariffs would fall under which type of inflation? (8)

    b. Explain the difference between Structural, Frictional, and Cyclical unemployment and provide **ONE** example of a policy that can be implemented to weaken the possibly negative impact on the labour market. (9)

    c. Based on your understanding of the Philips curve (which shows the relationship between inflation and unemployment), distinguish between the short run and long run relationship which can exist between inflation and unemployment. (8)

(Total: 25 marks)

11. a. Why is a decrease in the level of national debt considered desirable for a country? (8)

    b. Explain the difference between expansionary and contractionary fiscal policy. If the government intended to reduce its budget deficit, which of these two policies would it implement? Provide **ONE** example of such a policy and evaluate its implications on the economy using the aggregate supply and aggregate demand model. (9)

    c. Based on the aggregate supply and aggregate demand model, explain how the government's policy can stimulate economic growth without causing an increase in the price level of the economy. Provide **ONE** example of such a policy that can achieve this policy objective. (8)

(Total: 25 marks)

12. a. Explain the difference between a floating (flexible) exchange rate system and fixed exchange rate system. Is there a limit to how long a country can sustain a balance of payments surplus under a fixed exchange rate system? Explain your answer. (9)

    b. Describe **THREE** methods that can be applied by the government in order to restrict trade, and explain why authorities might choose to implement such policies. (8)

    c. Describe the main components of the balance of payments. What would likely be the effect on the current account of the Maltese economy in the event of a depreciation of the Euro against the US Dollar? (8)

(Total: 25 marks)

L-Università ta' Malta

MATRICULATION AND SECONDARY EDUCATION CERTIFICATE
EXAMINATIONS BOARD

ADVANCED MATRICULATION LEVEL
2025 SECOND SESSION

SUBJECT:	**Economics**
PAPER NUMBER:	II
DATE:	1st September 2025
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 a particular precious stone:

$$Q_D = 18000 - 1.2\ P_D + P_S + 0.3\ Y$$

where:

Q_D is quantity demanded;
P_D is the average price of the good itself;
P_S is the average price of a substitute good;
Y is average personal income.

a. Plot the demand function by assuming that P_S is equal to €4,000, Y is equal to €10,000, and the price P_D takes a value from €1,000 up to €8,000. Does the demand function conform to the law of demand? Explain your answer. (6)

b. By assuming that P_S is equal to €4,000 and Y is equal to €10,000, find the elasticity of demand with respect to price P_D when P_D is equal to (i) €3,000 and (ii) €5,000. Explain how the price elasticity of demand changes with the price level. (7)

c. If Y increases to €12,000, would you expect any changes in the price elasticity of demand when PD equals €3,000 and €5,000? If not, why? If yes, discuss whether the price elasticity of demand changes compared to the answers for part (b). (6)

Suppose that the supply equation for the same good is:

$$Q_S = 800 + 2\ P_D + T$$

where:

Q_S is quantity supplied;
P_D is the average price of the good itself;
T is an index of technology.

d. Assuming that T takes the value of 5000 and the price P_D takes a value from €1,000 up to €8,000, plot the supply curve on the same graph paper where you plotted the demand curve. Find the equilibrium price and quantity. (6)

e. Discuss **FOUR** factors that determine the demand for precious stones and **FOUR** factors that determine the supply of the same good. (8)

(Total: 33 marks)

Please turn the page.

© The MATSEC Examinations Board reserves all rights on the examination questions in all examination papers set by the said Board.

2. A firm producing a particular product faces the following average cost and average revenue table:

Table 1

Output	Average Cost (€)	Average Revenue (€)
1	8.96	36.00
2	8.40	35.00
3	8.26	34.00
4	8.40	33.00
5	8.82	32.00
6	9.52	31.00
7	10.503	30.00
8	11.94	29.00
9	13.58	28.00
10	15.54	27.00

a. Calculate the total costs (TC), the total revenue (TR), the marginal cost (MC) and the marginal revenue (MR) for all levels of output. (6)

b. Plot the Average Cost (AC) and the Average Revenue (AR) in one graph and the Marginal Revenue (MR) and the Marginal Cost (MC) in a separate graph. (5)

c. At which level of output should the firm produce to be most profitable? How much profit will the firm earn in this case? Highlight the area of the graph which represents the profit made. (7)

d. 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. (7)

e. What would happen if:
   i. the firm invests in new technology, which increases productivity. (4)
   ii. the price of one of the factors of production increases. (4)

(Total: 33 marks)

3. Table 2 shows the relationship between labour and capital use to produce product Z in a certain factory.

Table 2

Output	Labour Units	Capital Units
40	4	40
106	8	40
234	12	40
400	16	40
584	20	40
768	24	40
914	28	40
1024	32	40
1108	36	40
1178	40	40
1230	44	40
1272	48	40
1300	52	40

The price of labour is €700 per unit, while the price of capital is €600 per unit.

a. Construct a table for the total, variable, and fixed costs curves and plot them. (9)

b. Construct a table for the average and marginal cost curves and plot them. (7)

Suppose that each product sells for €54.

c. At what level of output will the firm produce? What would be the firm's total profit? (5)

d. Suppose this firm invents a new technology that reduces marginal costs. Does this lead to a change in the price it charges or the profit it makes? Explain your answer. (6)

e. Is it likely for this factory to continue making super-normal profits in the long run? Explain your answer. (6)

(Total: 33 marks)

Please turn the page.

SECTION B

4. According to the Autumn 2024 Economic Forecast for Malta published by the European Commission, HICP inflation moderated and is set to average 2.5% in 2024. Energy prices are expected to remain stable also in 2025 and 2026, as Maltese authorities confirmed their commitment to continue their energy subsidies measures. Headline inflation is forecast at 2.2% in 2025 and 2.0% in 2026, with food and services inflation set to be the main contributors to inflation.

Reference: European Commission (2024), Autumn 2024 Economic forecast for Malta.

a. How does the National Statistics Office measure inflation? (5)

b. What are the practical problems in compiling data for inflation? (5)

c. "HICP inflation moderated and is set to average 2.5% in 2024…Headline inflation is forecast at 2.2% in 2025 and 2.0% in 2026." What does the European Commission mean when it said that they expect inflation to average 2.5% in 2024? And given that the European Commission is expecting a gradual decline in the inflation rate registered by Malta in 2025 and 2026, does this mean that inflation in 2025 and 2026 will be negative? Discuss. (10)

d. What is the difference between headline (total) and core inflation? (5)

e. Discuss the relationship between negative inflation rates and:
   i. debt. (4)
   ii. interest rates. (4)

(Total: 33 marks)

5. According to NSO data, during 2023, Malta registered a trade deficit of €4,061.2 million compared to a trade deficit of €4,840.5 registered in 2022.

Table 3

€ million	**2022**	**2023**
Imports	**9,511.8**	**8,577.5**
Industrial Supplies	**2,238.1**	**2,335.1**
Primary	195.8	203.6
Semi-Finished	1,900.7	1,954.6
Finished	141.6	176.9
Capital Goods and Others	**2,724.6**	**2,106.6**
Consumer Goods	**1,977.0**	**2,147.0**
Food and Beverages	707.4	776.5
Durable Goods	719.1	782.2
Others	550.5	588.3
Fuels and Lubricants	**2,572.1**	**1,988.8**
Exports	**4,671.3**	**4,516.3**
Visible Trade Gap	**-4,840.5**	**-4,061.2**

Reference: National Statistics Office (Dec, 2023). International Trade: December 2023 [Published on 09 February 2024]

a. Explain what is understood by visible trade gap? Why would you expect the Maltese visible trade gap to be negative? (7)

b. What is driving the narrowing in the trade deficit of €779.3 million between 2022 and 2023? Calculate the year-on-year percentage change in the visible trade gap between 2022 and 2023? (8)

c. What are the macroeconomic effects of running visible trade deficits? Is it possible to offset these deficits from other components within the balance of payments? (8)

d. What is the likely impact on Malta's visible trade gap and GDP following:
   i. a slowdown in the economies of Malta's main trading partners. (5)
   ii. Euro appreciates relative to the Dollar and the Sterling. (5)

(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)
$I = 180$		eq. (4)
$G = 150$		eq. (5)
$t = 0.3$		eq. (6)

where:

Y = National Income
C = Consumption Expenditure
I = Investment Expenditure
G = Government Final Consumption Expenditure

a. What is the meaning of the Marginal Propensity to Consume, the Marginal Propensity to Save and Autonomous Consumption? What are the values taken by **each** in the equations above? (9)

b. What is the expression for the multiplier coefficient? What is the value of the multiplier coefficient? (7)

c. Using the equations above, find the equilibrium value of income (Y). (6)

d. Show that in equilibrium, savings is equal to investment in the economy. (5)

e. Discuss the implications of:
   i. the tax rate (t) equal to 0. (2)
   ii. a change in investment from 180 to 150. (2)
   iii. a change in government expenditure from 150 to 180. (2)

(Total: 33 marks)