L-Università ta' Malta

MATRICULATION AND SECONDARY EDUCATION CERTIFICATE
EXAMINATIONS BOARD

ADVANCED MATRICULATION LEVEL
2026 SECOND SESSION

SUBJECT:	**Economics**
PAPER NUMBER:	I
DATE:	31st August 2026
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. Using a production possibility frontier (PPF) diagram to:
   i. explain what a point on the PPF represents; (2)
   ii. explain what a point inside the PPF represents; and (2)
   iii. explain what a point beyond the PPF represents. (2)

   b. Explain the law of demand and distinguish between a movement along the demand curve and a shift in the demand curve. Use a diagram to illustrate your answer. (9)

   c. Explain and show graphically the effect on the equilibrium price and quantity in the market for air travel of:
   i. an increase in disposable income; and (5)
   ii. stricter aviation standards that reduce the number of flights that airlines are able to offer. (5)

(Total: 25 marks)

2. a. With the aid of a diagram, explain the effect of a price ceiling imposed by government. Using **ONE** real-world example, explain **TWO** problems resulting from the imposition of a maximum price. (10)

   b. For **each** of the following, state what the elasticity implies and provide **ONE** practical example of:
   i. a good with a positive income elasticity of demand; and (5)
   ii. a good with a negative cross price elasticity of demand with respect to another good. (5)

   c. Explain price elasticity of demand and price elasticity of supply and identify **TWO** determinants for **each**. (5)

(Total: 25 marks)

3. a. Explain how the diminishing marginal utility is related to consumer utility maximisation. (9)

   b. Explain why the long-run average cost curve is typically U-shaped. Give **TWO** examples of economies of scale and **TWO** examples of diseconomies of scale. (9)

   c. If a firm's marginal revenue exceeds its marginal cost, is the firm maximising profit? Explain your answer. (7)

(Total: 25 marks)

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4. a. Distinguish between normal profit and supernormal profit. (5)

   b. Draw separate diagrams for a firm in a perfectly competitive market under long-run equilibrium and for a firm operating in a monopoly. Explain the characteristics of **each** market and compare perfect competition with monopoly. (12)

   c. Is perfect competition always preferable to a monopoly? Discuss with reference to the relative advantages and disadvantages of these two market structures. (8)

(Total: 25 marks)

5. a. Compare the characteristics of monopolistic competition with those of an oligopoly. (9)

   b. Discuss the long-run equilibrium of a firm under monopolistic competition. Why is this equilibrium one of excess capacity? Use a diagram to illustrate your answer. (8)

   c. The interdependence of firms in an oligopolistic market can lead to different forms of collusion. Discuss. (8)

(Total: 25 marks)

6. a. Why is the demand for labour a derived demand? Mention **TWO** other determinants of the demand for labour. (5)

   b. As the wage rate increases, two opposing forces influence an individual's supply of labour. Explain this statement, using a diagram to support your answer. (11)

   c. Explain how a profit-maximising firm determines the optimal quantity of labour to employ. (9)

(Total: 25 marks)

SECTION B

Answer TWO questions from this section.

7. a. Explain **THREE** causes of unemployment and give **ONE** example for **each** cause. (6)

   b. Explain **THREE** costs to the economy associated with unemployment. (6)

   c. Using a Phillips Curve diagram, explain the short-run relationship between inflation and unemployment. (8)

   d. Explain how the stagflation experienced by the US and several advanced economies in the 1970s challenged the original Phillips curve. (5)

(Total: 25 marks)

8. a. Define the Gross Domestic Product (GDP) and explain the difference between real GDP and nominal GDP. Which **ONE** of the two indicators is used to measure economic growth? (7)

   b. Explain the accelerator principle and, referring to the accelerator theory equation, show how a rise in national income may lead to a rise in investment. (11)

   c. Discuss why the accelerator effect may make investment and national income more unstable over the business cycle. (7)

(Total: 25 marks)

9. a. Using a circular flow of income diagram for an open economy, explain why macroeconomic equilibrium occurs when total withdrawals (W) are equal to total injections (J), that is W = J. What happens to national income when withdrawals are **not** equal to injections? (10)

   b. Malta is a small open economy which depends heavily on imported goods and services. Explain how an increase in imports acts as a withdrawal from the circular flow of income and its likely effect on national income, employment and the multiplier. (9)

   c. Explain **TWO** policies through which the Government may offset the negative effect of higher imports on national income. (6)

(Total: 25 marks)

10. a. Conflicts in the Middle East have led to increases in oil, energy and transport costs. Using an AD-AS diagram, identify the type of inflation most likely to result from this situation and explain how this type of inflation affects the general price level and real national output. (10)

    b. The European Central Bank (ECB) aims for inflation of 2% over the medium term. Explain why the ECB targets low and stable inflation rather than 0% inflation. (5)

    c. Explain **TWO** measures that a central bank may use to contain inflation. In your answer, refer to how these measures affect aggregate demand. (6)

    d. Explain **TWO** appropriate policy responses by the Government to reduce cost-push inflation. (4)

(Total: 25 marks)

11. a. Using a labour demand and supply diagram, explain the likely effect of a government imposed minimum wage set above the equilibrium wage. (10)

    b. Malta, like many other countries, has a statutory minimum wage. Explain the economic and social reasons why a government may intervene in the labour market by setting a minimum wage. (6)

    c. Apart from the labour market, markets may fail to achieve socially desirable outcomes. Explain **TWO** other examples of market failure and discuss **ONE** form of government intervention that may be used in **each** case. (9)

(Total: 25 marks)

12. a. Define money and explain its main functions in a modern economy. (6)

    b. Why are deposits in banks and other financial institutions included in broader measures of the money supply? (3)

    c. Using a money market diagram, explain how the equilibrium rate of interest is determined. (9)

    d. Malta is a member of the euro area. Explain the respective roles of the European Central Bank, the Central Bank of Malta and the Malta Financial Services Authority in the financial and monetary system. (7)

(Total: 25 marks)

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EXAMINATIONS BOARD

ADVANCED MATRICULATION LEVEL
2026 SECOND SESSION

SUBJECT:	**Economics**
PAPER NUMBER:	II
DATE:	1st September 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. Suppose that the data in the Table 1 below represents the market demand and supply schedules for board games over a range of prices.

Table 1

Price (Euros)	Demand (units/year)	Supply (units/year)
30	2000	1000
45	1800	1200
60	1600	1400
75	1400	1600
90	1200	1800
105	1000	2000

a. Plot the demand curve and the supply curve. Find the market equilibrium price and equilibrium quantity. (8)

b. Calculate and interpret the price elasticity of demand at **each** output level. (7)

c. Explain **THREE** factors other than price that are likely to influence demand for board games. (6)

d. Suppose that the Government would like to make board games accessible for all. Would it make sense to set a maximum price at €90 for board games? (4)

e. Assume now that the Government imposes a maximum price of €60 on board games. Determine the difference between demand and supply, if any, and explain what is likely to be the impact on total market welfare, consumers' surplus and producers' surplus. (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 run the business. The firm's decisions rest on the following output and cost figures:

Table 2

Number of Workers	Labour Costs (Euro per hour per employee)	Total Output per hour (units)
10	7	10
20	8	90
30	9	160
40	10	220
50	11	270
60	12	310
70	13	340
80	14	360
90	15	375
100	16	385

Assume that output sells at €10.5 per unit and that each employee works 8 hours per day.

a. Construct a table to show the Total Cost of Labour per day (TC_L), Marginal Cost of Labour (MC_L), the Total Revenue Product per day (TRP_L), and the Marginal Revenue Product (MRP_L). (8)

b. How many workers will the firm employ to maximise profits? What will its hourly wage bill and hourly revenue be at this level of employment? What is the profit per unit at the level of output? 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 44 hours per week. The rate per hour for overtime is 1.5 times the normal hourly rate. Assume that total output per hour remains unchanged, but employees can work more in a relaxed and peaceful environment.

c. Would this change the answer provided in (b) on the number of workers the firm employs to maximise profits? Show your workings. (7)

d. If the firm decides to increase the selling price by €0.48 per unit, would this change the answer provided in (c)? Why or why not? Discuss your answer using calculations. (8)

(Total: 33 marks)

3. The following Table 3 shows the relationship between the use of labour and capital to produce output per week in a certain manufacturing firm.

Table 3

Output Units	Labour Unit	Capital Unit
1500	20	200
2400	40	200
5270	60	200
9000	80	200
13,130	100	200
17,280	120	200
20,580	140	200
23,040	160	200
24,930	180	200
26,500	200	200
27,670	220	200

The price of labour is €350 per unit while the price of capital is €300 per unit.

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

b. Construct a table showing the total cost (TC), variable cost (VC) and fixed cost (FC), and plot the corresponding curves. (9)

c. What do you understand by the law of diminishing marginal product? Does the above data conform to the law of diminishing marginal product? Explain your answer using numerical illustrations. (6)

Assume that this factory operates in a perfectly competitive market where the price set by the market is €6.0 per unit of output.

d. What is the profit-maximising level of output? What would be the profit in this case? Is this outcome likely to be maintained in the long-run? Explain your answer. (Hint: round to 1 decimal place) (8)

e. What happens if this factory manages to obtain a patent on its product in the short-run? Explain your answer. (3)

(Total: 33 marks)

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SECTION B

4. According to the Spring 2026 Economic Forecast for Malta published by the European Commission, Malta's economy is expected to maintain its strong growth momentum, with real GDP expanding by 4.0% in 2025. The expansion is driven by robust domestic consumption and a thriving tourism sector and is projected to moderate to 3.7% in 2026 and 3.6% in 2027 as external economic conditions become less favourable. Although the impact of higher international energy prices is mitigated by government measures, inflation is nonetheless expected to accelerate to 2.7% in 2026. The labour market remains tight, with real wages growing moderately. Having narrowed to 2.2% of GDP in 2025, the government deficit is forecast to remain below the 3% threshold over the forecast horizon. The debt-to-GDP ratio is expected to stabilise at around 46%.

Reference: European Commission (2026), Spring 2026 Economic forecast for Malta.

   a. Why does the European Commission produce fiscal forecasts of the Maltese economy? Are there any fiscal rules which Malta must adhere to? Explain in detail. (7)

   b. Real GDP amounted to €17,728 million in 2024. Calculate:
      i. The real GDP level in 2026; and
      ii. The general government balance in 2025, assuming a GDP deflator at an index level of 122.0 for 2025 (based on 2020=100). (6)

   c. What does it mean to have a tight labour market? What are the theoretical macroeconomic effects of labour markets which are tight? (6)

   d. Explain why external economic conditions are expected to influence economic growth in Malta. (6)

   e. Discuss the relationship between economic growth and:
      i. Inflation;
      ii. Public debt. (8)

(Total: 33 marks)

5. In a press release issued by the National Statistics Office (NSO) on the Retail Price Index (RPI) for April 2026, it was reported that:

   - In April 2026, the annual rate of inflation as measured by the RPI was 2.8%, up from 2.7% in March 2026.

   - The 12-month moving average rate for April stood at 2.6%.

   - The largest contribution to the overall annual inflation was measured in the Food Index (+0.85 percentage points), while the only downward contribution was recorded in the Clothing and footwear Index (-0.29 percentage points).

   Reference: National Statistics Office (May 2026). Retail Price Index (RPI): April 2026

   a. The National Statistics Office produces two measures of inflation. Which are they and what explains the potential differences between the **TWO** indices? (7)

   b. What is the difference between the annual rate of inflation and the 12-month moving average rate? (6)

   c. How does the European Central Bank define price stability and why is an inflation target of 0% discouraged? (7)

   d. Briefly give an overview of different anti-inflationary policies and illustrate through practical examples how these policies could be implemented to combat inflation. (7)

   e. Is there a theory that explains the relationship between the labour market and inflation? If so, what is it called and what does it imply? (6)

(Total: 33 marks)

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6. Table 4 below shows data on Consumption (C) and Income (Y) for a closed economy without government. Investment (I) is exogenous and fixed at €80 million per year.

Table 4

Income (€ million)	**Consumption (€ million)**
0	200
140	300
280	400
420	500
560	600
700	700
840	800
980	900
1120	1000
1260	1100

a. Calculate aggregate demand at **each** level of income and find the equilibrium level of income. (9)

b. Suppose that investment increases by €40 million. What would be the change in equilibrium income? (5)

c. Calculate the value of the income multiplier coefficient in this economy following the injection of €40 million in the form of investment. (6)

d. Using the data provided in Table 4, derive the consumption function. What is the marginal propensity to consume and what value does it take in this case? (9)

e. Using the data provided in Table 4, specify the savings function of this economy. (4)

(Total: 33 marks)