L-Università ta' Malta

MATRICULATION AND SECONDARY EDUCATION CERTIFICATE EXAMINATIONS BOARD

INTERMEDIATE MATRICULATION LEVEL
2026 FIRST SESSION

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

The question in Section A, is **compulsory**. In addition, answer **TWO** questions from Section B and **TWO** questions from Section C.

Section A carries a total of 20 marks, while Section B and Section C each carry a total of 40 marks. The paper is marked out of 100 marks.

SECTION A

This question is **Compulsory** and carries **20 marks**.

1. The French red wine industry is experiencing a significant long-term decline. Consumption of red wine has fallen by approximately 90% since the 1970s, while overall wine consumption in France has decreased by more than 80% since 1945. This downward trend is particularly pronounced among younger consumers. Generation Z, in particular, purchases significantly less wine than older cohorts, as preferences shift towards alternative beverages or away from alcohol altogether.

   On the supply side, many French winemakers are reluctant to adapt their production. Resistance to change stems from high adjustment costs, a strong commitment to traditional production methods, and the fact that switching from red to white wine production requires substantial investment.

   Adapted from 'French red wine in sharp decline as tastes change among young drinkers' published in the Financial Times, 03 January 2025.

   a) Explain the laws of demand and supply. (4)
   b) Explain how the laws of demand and supply interact to determine market equilibrium. Use an appropriately labelled diagram to support your explanation. (6)
   c) Using the wine case study, explain whether the decline in consumer demand represents a movement along the demand curve or a shift in the demand curve. Assuming all other factors remain constant, explain the likely effect on the equilibrium price of French red wine. (4)
   d) With reference to the case study, assess whether the price elasticity of supply of French red wine is likely to be elastic or inelastic in the short run. Briefly explain how this elasticity influences price adjustments following the decline in consumer demand. (6)

   (Total: 20 marks)

Please turn the page.

SECTION B (40 marks)

Answer any TWO questions in detail. Each question carries 20 marks.

2. Malta is a small, open economy. Suppose the Maltese government undertakes a large-scale investment programme in digital infrastructure, education, and renewable energy, leading to higher productivity and improved efficiency across the economy. Assume the economy produces consumer goods and capital goods.

    a) Explain the concepts of scarcity, choice, and opportunity cost. Using a production possibility curve (PPC), explain how these concepts are related. (6)
    b) Using a clearly labelled PPC, explain how the government investment programme affects Malta's factors of production and the economy's productive capacity. State whether this change represents a movement along the PPC or a shift of the PPC, and justify your answer. (8)
    c) Assess the role of government intervention in a mixed economy such as Malta in addressing the problem of scarcity and resource allocation. In your answer, consider how government intervention may complement or replace the free market in promoting economic growth. (6)

    (Total: 20 marks)

3. Innovate Ltd. is a technology firm specialising in developing AI-driven software solutions for small businesses. Over the past year, the firm has focused on a new product called SmartInventories, which promises to revolutionise inventory management for retailers. The initial launch saw steady growth in total revenue (TR) as more businesses adopted the software, but total production costs (TC) also rose due to the high expense of skilled labour.

    a) Discuss **THREE** reasons why profit is important in a market economy. (6)
    b) Using the Total Revenue-Total Cost (TR-TC) approach, explain how the firm determines the profit-maximising level of output, assuming that TR increases continuously at a constant rate. (8)
    c) Distinguish between normal profit, supernormal profit, and economic losses. Using the TR–TC framework, explain how Innovate Ltd. may experience **each** of these outcomes at different levels of output. (6)

    (Total: 20 marks)

4. In many countries, train operators set higher fares during peak travel times (e.g., weekday mornings and evenings) compared to off-peak times (e.g., mid-morning, afternoon, or weekends). This pricing strategy is based on differences in demand patterns across these periods.

    a) Define the term price elasticity of demand. In your explanation, provide the formula for it. (4)
    b) Discuss the main factors that influence the price elasticity of demand for train travel, explaining why it differs during peak and off-peak hours. (8)
    c) Explain how differences in price elasticity of demand between peak and off-peak times allow train operators to maximise revenue. Use examples and diagrams to illustrate your answer. (8)

    (Total: 20 marks)

5. Rivertown is a growing industrial town where factories discharge untreated waste into the nearby River Stream. This has led to severe water pollution, affecting the health of residents and the livelihoods of fishermen who rely on the river. While the factories argue that treating waste is too costly, the government is considering introducing measures to address the issue. However, some residents are concerned that these measures might affect the local unemployment rate.

   a) Explain the concept of market failure using the example of pollution in Rivertown. (4)
   b) Discuss how the pollution in River Stream creates negative externalities for residents and fishermen. (6)
   c) Discuss **THREE** measures that the local government could adopt as solutions to market failure in this case. (6)
   d) Discuss the potential trade-offs between economic growth and environmental sustainability in Rivertown. (4)

(Total: 20 marks)

SECTION C

Answer any TWO questions in detail. Each question carries 20 marks.

6. Table 1 below shows selected macroeconomic indicators for Country X in 2023 and 2025, including Gross Domestic Product (GDP), population size, and the balance on the current account of the Balance of Payments.

Table 1

Year	GDP (€ bn)	Population (millions)	Current Account (€ bn)
2023	18.0	0.52	-0.4
2025	19.5	0.54	-1.1

   a) Explain **TWO** methods of measuring national income. Using the data in Table 1, calculate the GDP per capita for 2023 and 2025. (6)
   b) Assess the limitations of using GDP as an indicator of living standards in an economy. Illustrate your answer with **THREE** relevant examples. (6)
   c) Discuss **TWO** possible causes and **TWO** consequences of a sustained current account deficit for Country X. (8)

(Total: 20 marks)

7. a) With the use of appropriate diagrams, explain the relationship between income, consumption, and saving. (6)
   b) Using appropriate diagrams, explain **THREE** factors other than disposable income that may influence household consumption. (8)
   c) In an economy, the marginal propensity to consume (MPC) is 0.75.
      (i) Calculate the marginal propensity to save (MPS). (2)
      (ii) Define multiplier and explain how this value affects the size of the multiplier. (4)

(Total: 20 marks)

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8. The government of a small open economy announces the following measures:
   - An increase in public infrastructure spending.
   - A reduction in income tax rates.
   - Increased welfare payments.

   As a result, the government budget moves from balance to deficit.

   a) Explain the main reasons for government spending in an economy. (6)
   b) Define budget deficit and budget surplus, and explain how the above measures may lead to a deficit. (6)
   c) Evaluate the effectiveness of fiscal policy in promoting economic growth and reducing unemployment. (8)

   (Total: 20 marks)

9. In 2025, a country recorded the following:
   - Unemployment rate: 7.8%.
   - Inflation rate: 5.6%.
   - Government budget deficit: 4% of GDP.

   The government is concerned about rising living costs and job losses.

   a) Explain **FOUR** main types of unemployment and identify which type is most likely to be increasing in this situation. (8)
   b) Describe the possible causes of inflation in this economy. (6)
   c) Evaluate the extent to which fiscal and monetary policies can be used to reduce unemployment without causing further inflation. (6)

   (Total: 20 marks)