



**L-Università
ta' Malta**

MATRICULATION AND SECONDARY EDUCATION CERTIFICATE
EXAMINATIONS BOARD

**SECONDARY EDUCATION CERTIFICATE LEVEL
2026 MAIN SESSION**

SUBJECT:	Economics
PAPER NUMBER:	I – Level 1-2-3
DATE:	29 th April 2026
DURATION:	2 hours 5 minutes

Answer **ALL** the questions in the spaces provided. There may be more space than you need. Calculators may be used. The total mark for this paper is 100. The marks for each sub-question are shown in brackets.

Some questions must be answered by ticking with a horizontal line (–). If you change your mind about an answer, put a vertical line through the horizontal line (+) and then mark your new answer with a horizontal line (–).

1. a. If there is enough supply to satisfy people's unlimited wants, then it must be:

- () choice.
- () an economic good.
- () a free good.
- () a public good. (1)

b. A person who fails to maximise their total satisfaction is known as:

- () a rational producer.
- () an irrational producer.
- () a rational consumer.
- () an irrational consumer. (1)

c. Assess how a market economy, a command economy, and a mixed economy allocate resources differently.

(3)

d. Define opportunity cost.

(1)

This question continues on next page.

e. List **FOUR** characteristics of a command economy.

f. i. Explain the relationship between the basic economic problem of scarcity and the necessity of making choices.

ii. Assess how the existence of scarcity may result in income inequality within an economy.

g. As of October 2025, laptops were distributed to secondary school students across schools in Malta and Gozo. This was part of the One Device Per Child (ODPC) project, an initiative worth €54 million, co-financed by national and European funds. Explain the opportunity cost faced by government for such a decision.

h. i. When considering a mass transportation system, a country faces the maximum combinations of metro trains and trackless trams presented in Table 1 below:

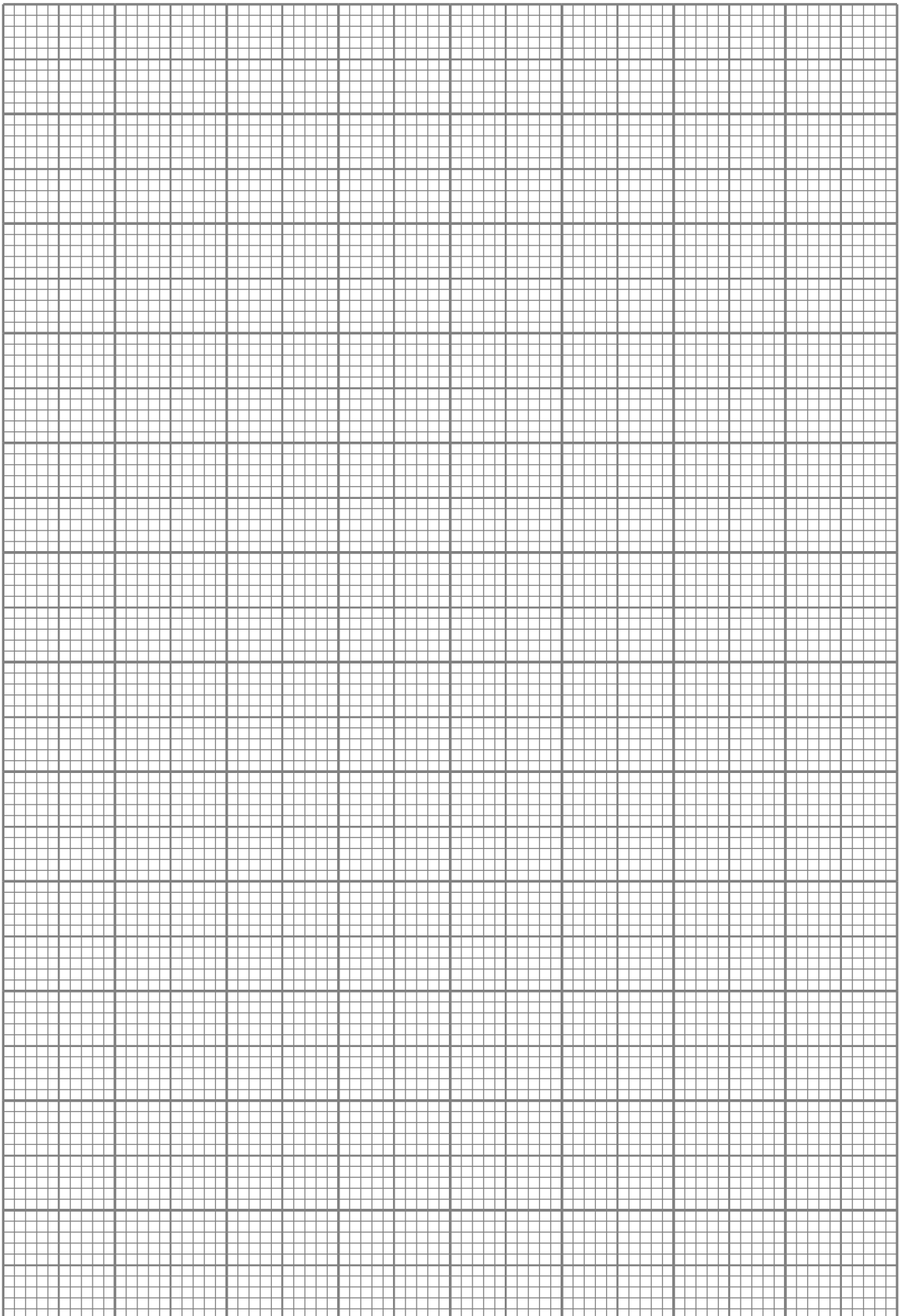
Table 1

Metro trains	Trackless trams
0	18
1	12
2	6
3	0

Plot the Production Possibility Curve (PPC) on the graph paper provided in the next page. Use proper labelling.

(3)

DO NOT WRITE ABOVE THIS LINE



- ii. By referring to the graph you plotted, evaluate a production combination of 1 metro train and 6 trackless trams. Describe what this point implies about the use of available resources.

(2)

- iii. List **TWO** ways through which limited resources, such as trains and trams, can be allocated by government.

(2)

- iv. Assess **THREE** likely effects that the allocation of resources towards the metro trains and the trackless trams will have on the environment.

(3)

(Total: 25 marks)

2. a. Which of the following is classified as a public good?

- () Gym membership.
 () Roadworks.
 () Social accommodation.
 () Electricity supply. (1)

- b. Which of the following government policies can be used to reduce the negative externality caused by car pollution?

- () Increase licence fees for fuel-based cars.
 () Launch an educational campaign to encourage carpooling.
 () Subsidise electric vehicles.
 () All of the above. (1)

- c. Explain why the private sector is generally unable to provide public goods, such as street lighting, effectively.

(3)

- d. State whether the following will have a positive or a negative externality:

i. Eating nutritious food: _____ (1)

ii. Smoking recreational marijuana: _____ (1)

- e. Indicate whether the following statement is true or false and provide a reason.

"In attempt to reduce costs, in 2025 the 'U.S. Department of Labor' was aiming to reduce requirements for adequate lighting at construction sites at risk. This is an example of trying to be competitive by reducing safety regulations rather than by adopting more efficient means of production and, therefore, goes against SDG 8."

() True () False (1)

Reason: _____

(1)

- f. Define price-floor.

(1)

- g. Distinguish between private costs and social costs.

(2)

This question continues on next page.

h. Highly processed foods, such as cookies and sausages, are regarded unhealthy and therefore classified as demerit goods.

i. Why are such demerit goods over-supplied by the free market?

(2)

ii. Describe **TWO** government interventions that have been implemented or that can be introduced in Malta to decrease the consumption of highly processed food.

(4)

i. Fish farms in Malta generate around €200 million in revenue each year. They also generate a lot of fish slime, contaminating the sea.

i. Why are costs caused by private firms but borne by others **not** accounted for in a free market?

(3)

- ii. To compensate for these costs, Maltese fish farms were fined €45,000 over a five-year period. Assess this policy aimed at addressing this market failure. Refer to SDG 14 'Life Below Water' in your answer.

(4)

(Total: 25 marks)

3. a. Which of the following best defines inflation?

- () When prices of all goods fall every year.
() A sustained increase in the general price level.
() When wages rise faster than prices.
() When one product's price increases suddenly. (1)

- b. Which of the following is classified as a physical characteristic of money?

- () Medium of exchange.
() Unit of account.
() Portability.
() Store of Value. (1)

- c. Describe how a decrease in interest rates is likely to affect household saving behaviour.

(2)

- d. The government records the prices of a fixed set of goods each month to track inflation. Describe how inflation is measured.

(1)

This question continues on next page.

e. Fill in the blanks using the correct terms.

Inflation caused by higher consumer demand is called _____ inflation, while inflation caused by rising input costs is known as _____ inflation. (2)

f. Suppose that the annual inflation rate in a country increases from 3% to 6%. Calculate the percentage point change **and** state **ONE** possible reason for the change.

(2)

g. Identify the type of unemployment experienced by the individuals below:

- i. A travel agent loses her job during a recession. _____ (1)
- ii. A fresh graduate looking for his first job as a lawyer. _____ (1)
- iii. A farmer stops working after the harvest ends. _____ (1)
- iv. A factory worker is replaced by automated machinery. _____ (1)

h. Table 2 below shows the unemployment rate in three different regions of a country.

Table 2

Region	Unemployment Rate
North	5%
Central	7.5%
South	4.5%

Calculate the average unemployment rate to one decimal place.

(2)

i. A country is experiencing rising unemployment. Explain **ONE** policy the government can use to stimulate job creation and explain how this policy will help.

[illegible]

j. Explain why women in Malta possibly face higher unemployment rates than men.

_____ (2

k. Analyse how high inflation can negatively affect **both** business and households.

[illegible]

(Total: 25 marks)

4. a. Economic growth is best defined as:

- ☐ An increase in prices over time.
- ☐ An increase in real GDP per capita over time.
- ☐ An increase in exports.
- ☐ An increase in money supply.

(1)

This question continues on next page.

b. Which of the following is specifically identified as one of the United Nations Sustainable Development Goals (SDGs)?

- () Achieving a balanced government budget.
- () Reducing inequalities within and among countries.
- () Maintaining a low and stable rate of inflation.
- () Maximizing short-term commercial profits. (1)

c. Economic development refers to:

- () Growth in national income only.
- () Improvements in living standards and quality of life.
- () An increase in imports.
- () A fall in unemployment only. (1)

d. Give **TWO** characteristics of less developed countries (LDCs).

_____ (2)

e. Choose the correct word from the word bank to complete the sentences below.

Income	Wealth
--------	--------

i. The total value of assets owned by an individual is referred to as _____ . (1)

ii. The money earned from work or investments is referred to as _____ . (1)

f. The Malta Government 2026 Budget provides a free artificial intelligence (AI) service subscription to anyone completing an accredited AI course. Use the word bank below to explain how this initiative leads to economic growth.

Quality	Labour	Quantity	Land
---------	--------	----------	------

By completing the accredited AI course, workers gain new skills. This improves the factor of production known as _____. Since these workers are now more skilled and productive than before, the government has successfully increased the _____ of this factor of production. (2)

- g. The real GDP per capita for a particular country was €18,000 in 2024 and €18,540 in 2025. Calculate the year-on-year percentage increase in real GDP per capita.

_____ (1)

- h. Malta wants to ensure that its water and energy resources are used efficiently for future generations.

i. Suggest **ONE** way in which resource sustainability can be achieved.

_____ (1)

ii. Explain **TWO** constraints that will prevent resource sustainability from being fully achieved.

_____ (2)

- i. Give **ONE** reason why the United Nations created the Sustainable Development Goals (SDGs).

_____ (2)

This question continues on next page.

j. Assess **THREE** threats that limit the rate of economic growth in a country.

(6)

k. Analyse the impact of scarcity on less developed countries.

(4)

(Total: 25 marks)



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PAPER NUMBER: II – Level 1-2
DATE: 29th April 2026
DURATION: 2 hours 5 minutes

Answer **ALL** the questions in the spaces provided. There may be more space than you need. Calculators may be used. The total mark for this paper is 100. The marks for each question are shown in brackets. Some questions must be answered by ticking with a horizontal line (–). If you change your mind about an answer, put a vertical line through the horizontal line (+) and then mark your new answer with a horizontal line (–).

1. a. Define capital.

(1)

b. Which of the following correctly defines specialisation by product?

- () Buying a single type of product.
() Focusing on the production of a single product.
() Focusing on a single task in the production process of a product.
() Specialising in developing new goods/services from by-products. (1)

c. Which of the following can be classified as part of the tertiary sector of the economy?

- () Financial services.
() Pharmaceutical industry.
() Microchip industry.
() Fisheries. (1)

d. Classify the following into **either** goods **or** services: (3)

hair conditioner	donut	karaoke
haircut	gym membership	ear plugs

Goods	Services

This question continues on next page.

- e. i. Jim and Jinny run a gym called *Gym-Jam*. Calculate their costs by completing the missing information in Table 1 below. (4)

Table 1

Hours of service per day	Fixed Cost (€)	Variable Cost (€)	Total Cost (€)	Average Total Cost (€)
0			50	-
4		10		15
8		15		
12			75	6.25
16		40		
20			110	
24			140	

- ii. Refer to your answer in question 1.e.i. and explain how *Gym-Jam's* costs relate to output, considering the Law of Diminishing Returns.

(3)

- iii. Define Average Fixed Cost (AFC).

(1)

f. Resource allocation involves deciding how to use limited factors of production. Resources such as land, labor, and capital can be allocated by the market mechanism, the government, or both. Answer the following:

- i. Describe how the market mechanism allocates resources through the interaction of demand and supply.

(2)

- ii. Describe how a government may allocate land resources to achieve SDG 15 (Life on Land) instead of leaving it to the free market.

(2)

g. List **TWO** principles of 'fair trade' according to the World Fair Trade Organisation (WFTO).

(2)

(Total: 20 marks)

Please turn the page.

2. a. Which of the following is **not** a merit good?

- () Medicine.
() Education.
() Accommodation.
() Lighthouse

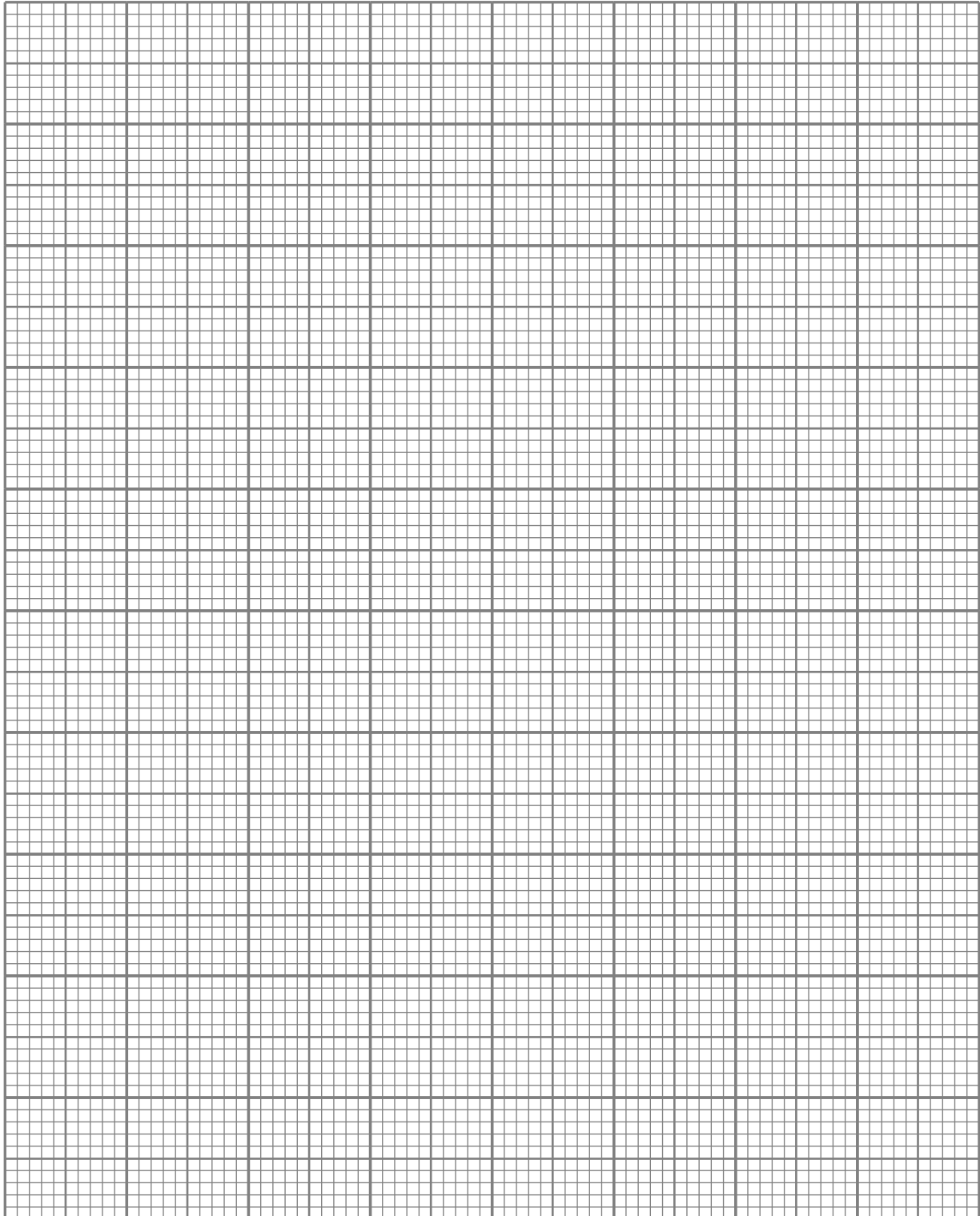
(1)

b. The demand and supply schedules for folding chairs are shown in Table 2 below.

Table 2

Price	Quantity demanded	Quantity supplied
€	Folding chairs per week	Folding chairs per week
10	140	5
15	120	30
20	100	55
25	80	80
30	60	105
35	40	130

- i. Plot **both** the demand and supply curves in the space below; use appropriate labelling on both axes. Indicate the equilibrium price and quantity clearly on the diagram. (4)



This question continues on next page.

ii. Using Table 2 on page 4, indicate whether there will be a surplus or a shortage at the following prices:

a) €10: _____ (1)

b) €20: _____ (1)

c) €30: _____ (1)

iii. Refer again to Table 2, calculate the price elasticity of demand (PED) for folding chairs when the price decreases from €25 to €20. Indicate whether demand at this price change is elastic or inelastic.

(3)

c. Identify the following demand curve in Figure 1 as price-elastic or price-inelastic.

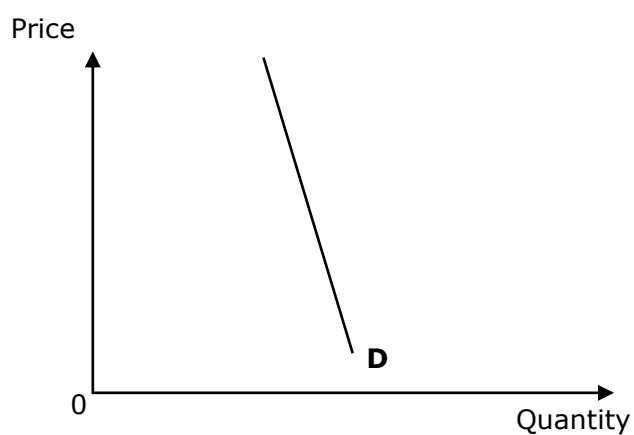


Figure 1

Answer: _____ (1)

d. Elaborate on how technological advances in Artificial Intelligence (AI) act as a non-price factor affecting the supply of goods in a market.

(3)

e. Define derived demand.

(1)

f. Which of the following does **not** affect demand for labour?

- () Wages.
- () Workers' productivity.
- () The price of the goods/services produced by labour.
- () Skills required for the job. (1)

g. Explain why firms' aim of self-interest through profit maximisation can lead to market failure.

(3)

(Total: 20 marks)

Please turn the page.

3. a. Which of the following best describes Gross Domestic Product (GDP)?

- ☐ The total income earned by citizens living abroad.
- ☐ The total value of final goods and services produced within a country in a given period.
- ☐ The total amount of exports minus imports.
- ☐ The government's annual spending. (1)

b. GDP is commonly used as an indicator of:

- ☐ The fairness of income distribution.
- ☐ A country's level of economic performance.
- ☐ The balance of payments.
- ☐ Exchange-rate stability. (1)

c. Real GDP is defined as:

- ☐ GDP measured at current market prices.
- ☐ GDP that includes imports and exports.
- ☐ GDP earned by government employees only.
- ☐ GDP adjusted to remove the effects of inflation. (1)

d. The main role of credit institutions such as Maltese commercial banks is to:

- ☐ Set income tax rates for households.
- ☐ Set interest rates on loans.
- ☐ Control the amount of money in the economy.
- ☐ Accept deposits and provide loans to firms and households. (1)

e. Which of the following is an external source of finance available to firms for expansion?

- ☐ Retained profits.
- ☐ Sale of unused assets.
- ☐ Bank loans.
- ☐ Reduction in inventory levels. (1)

f. Distinguish between Real GDP and Nominal GDP.

(1)

g. The figures in Table 3 relate to the Maltese economy in 2025.

Table 3

Economic Indicator	€ (billions)
Investment (I)	3.0
Government Expenditure (G)	2.6
Exports (X)	4.8
Savings (S)	3.2
Taxation (T)	3.0
Imports (M)	4.0

i. Refer to the data in Table 3 and indicate which are the injections and which are withdrawals. (3)

Economic Indicator	Injections	Withdrawals
Investment (I)		
Government Expenditure (G)		
Exports (X)		
Savings (S)		
Taxation (T)		
Imports (M)		

ii. Use the data in Table 3 and calculate the total injections and withdrawals.

(2)

h. Malta's real GDP growth in 2023 was 7%. In 2024 GDP growth was 6.9%, inflation 3% and unemployment 1.9%.

i. Identify the likely phase of the economic cycle.

(1)

This question continues on next page.

- ii. Explain expected trends in consumption, investment and inflationary pressures in the phase identified in (hi).

- i. Explain how the income tax cuts announced in the 2025 Malta government budget could influence GDP using the expenditure approach.

- j. In 2025, Malta's nominal GDP is projected to be €24.7 billion and inflation is expected at 2.5%. The population of Malta is estimated at 550,000. Calculate the approximate real GDP per capita for 2025. Show your workings.

(Total: 20 marks)

4. a. Which of the following best defines international trade?

- ☐ Buying and selling goods and services only within Malta.
- ☐ Only exporting goods from Malta.
- ☐ Buying and selling goods and services between countries.
- ☐ Government spending on imports. (1)

b. Which of the following is a primary example of Maltese exports?

- ☐ Rice.
- ☐ Coal.
- ☐ Financial services.
- ☐ Automobiles. (1)

c. Which of the following best explains the balance of payments:

- ☐ A record of a country's government spending and tax revenue over a year.
- ☐ A calculation of GDP per capita in a country.
- ☐ The total amount of payments made by a country with the rest of the world.
- ☐ A record of a country's economic transactions with the rest of the world over a period. (1)

d. An exchange rate is defined as:

- ☐ The interest rate charged on foreign loans.
- ☐ The difference between imports and exports.
- ☐ The rate at which good and services are exchange for money.
- ☐ The value of one currency in terms of another. (1)

e. How does the price paid by American customers for Maltese exports change, if there is a fall in the value of the Euro?

(1)

This question continues on next page.

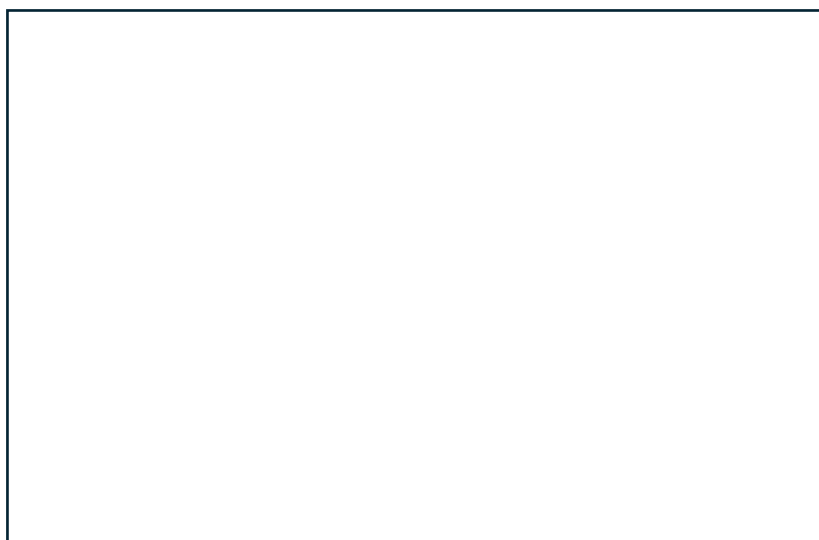
- f. If the exchange rate of the euro against the US dollar has fallen from \$1.10 to \$1.05 to the euro, calculate the impact of this change on a €1,000 service package for a US buyer before and after the depreciation.

(3)

- g. List **ONE** reason that can cause the depreciation of a currency.

(1)

- h. The Maltese euro is traded on the foreign exchange (forex) market against the US dollar (\$). Sketch a linear demand and supply curve for euro in the forex market in the space provided.



(3)

- i. State **TWO** factors that affect Malta's international competitiveness.

(2)

- j. State **TWO** main objectives of the European Union (EU) that aim to improve the well-being of its citizens and the environment.

(2)

- k. Choose the correct term from the word bank to define the following terms:

Free Trade area	Customs Union	Economic Union	Monetary Union	Common Market
-----------------	---------------	----------------	----------------	---------------

	an economic union where members share a common currency.
	allows member countries to trade goods with no tariffs among themselves, but each keeps its own trade policy with non-members.
	not only allows free trade but also imposes a common external tariff on imports from non-member countries.
	allows free movement of factors of production among member countries.

(2)

- l. Malta imports coffee and cocoa from Ethiopia, a Less Developed Country (LDC) that depends heavily on exporting primary products to earn foreign currency. State **TWO** main characteristics of a LDC such as Ethiopia.

(2)

(Total: 20 marks)***Please turn the page.***

5. a. What determines the price of money?

- () The total deposits in a bank.
- () The amount of money printed by the government.
- () The interest rate charged on loans.
- () The number of people saving. (1)

b. Which of the following best defines Income?

- () The total value of assets owned by an individual or business.
- () The money received by an individual or business exchange for providing goods or services.
- () The total amount of expenses paid by an individual or business during a period.
- () The difference between total assets and total liabilities. (1)

c. How is inflation usually measured?

- () By comparing the total money supply from one year to the next.
- () By calculating the change in total profits of businesses over time.
- () By tracking changes in the general price level of goods and services over time.
- () By measuring the amount of taxes collected by the government.

d. According to the National Statistics Office Malta (2025), as at end of 2024, 18.4% of Malta's population were aged 65 and over. Show **TWO** ways how an ageing population may be a strain on government expenditure.

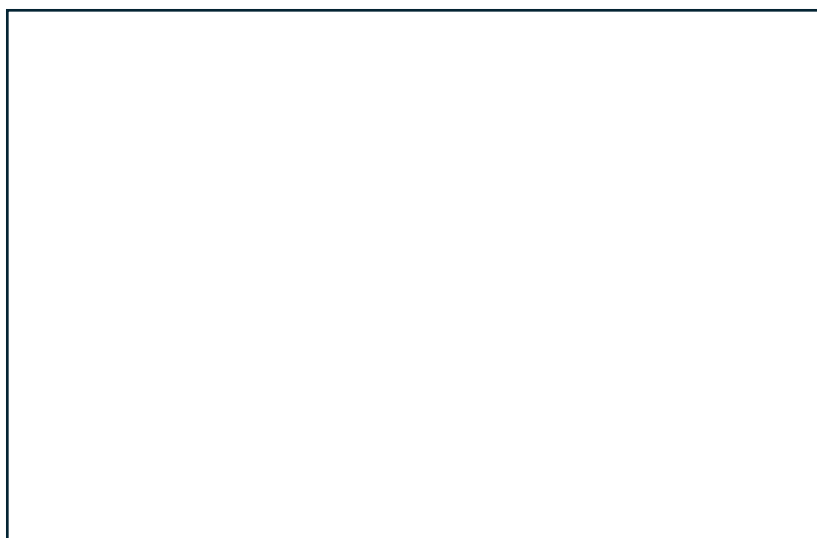
e. Explain the difference between direct and indirect taxes and give an example of **each**.

(3)

f. The 2025 Malta government budget announced these two measures:

- i. Wider personal income tax bands for parents leading to tax savings (progressive).
- ii. Value Added Tax (VAT) relief on certain medical accessories such that no VAT is paid (regressive).

In the space provided, illustrate by means of a graph, the relationship between income level and percentage of income paid in tax, to show the progressive tax and the regressive measure.



(4)

g. Elaborate on the role of the European Central bank (ECB) in taking monetary policy decisions to maintain price stability.

(4)

h. The Maltese government provides incentives for e-vehicles and other green initiatives. Explain **ONE** way in which a government can encourage businesses to reduce their negative impact on the environment.

(2)

(Total: 20 marks)

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Answer **ALL** the questions in the spaces provided. There may be more space than you need. Calculators may be used. The total mark for this paper is 100. The marks for each question are shown in brackets.

1. a. Describe the primary sector of production.

(1)

b. Explain the importance of the secondary sector of production as a link within the chain of production.

(2)

c. Classify the following into **either** consumer goods **or** producer goods: (3)

shampoo	muffin	work laptop
tractor	personal car	forklift

Consumer Goods	Producer Goods

This question continues on the next page.

- d. i. Jim and Jinny run a gym called *Gym-Jam*. Calculate their costs by completing the missing information in Table 1 below. (4)

Table 1

Hours of service per day	Fixed Cost (€)	Variable Cost (€)	Total Cost (€)	Average Total Cost (€)
0			50	-
4		10		15
8		15		
12			75	6.25
16		40		
20			110	
24			140	

- ii. Distinguish between fixed costs and variable costs.

(2)

- iii. How does the division of labour in a factory where capital is a fixed factor, eventually affect its marginal product?

(3)

- iv. Assess **ONE** disadvantage of the principle of division of labour and propose **ONE** solution to how this disadvantage can be overcome.

(2)

- e. Briefly describe **THREE** unethical methods of lowering production costs that are used by some businesses.

(3)

(Total: 20 marks)

2. a. Show how the free-market system is used to solve the basic economic problem of scarcity.

(3)

This question continues on next page.

- b. Compare and contrast Figures 1 and 2 below and explain what could have led to the different situation in **both** cases.

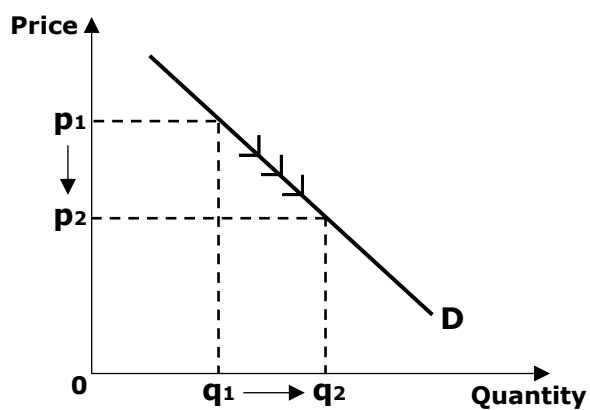


Figure 1

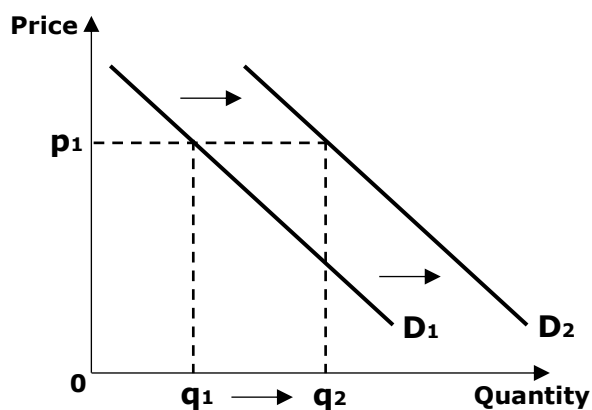


Figure 2

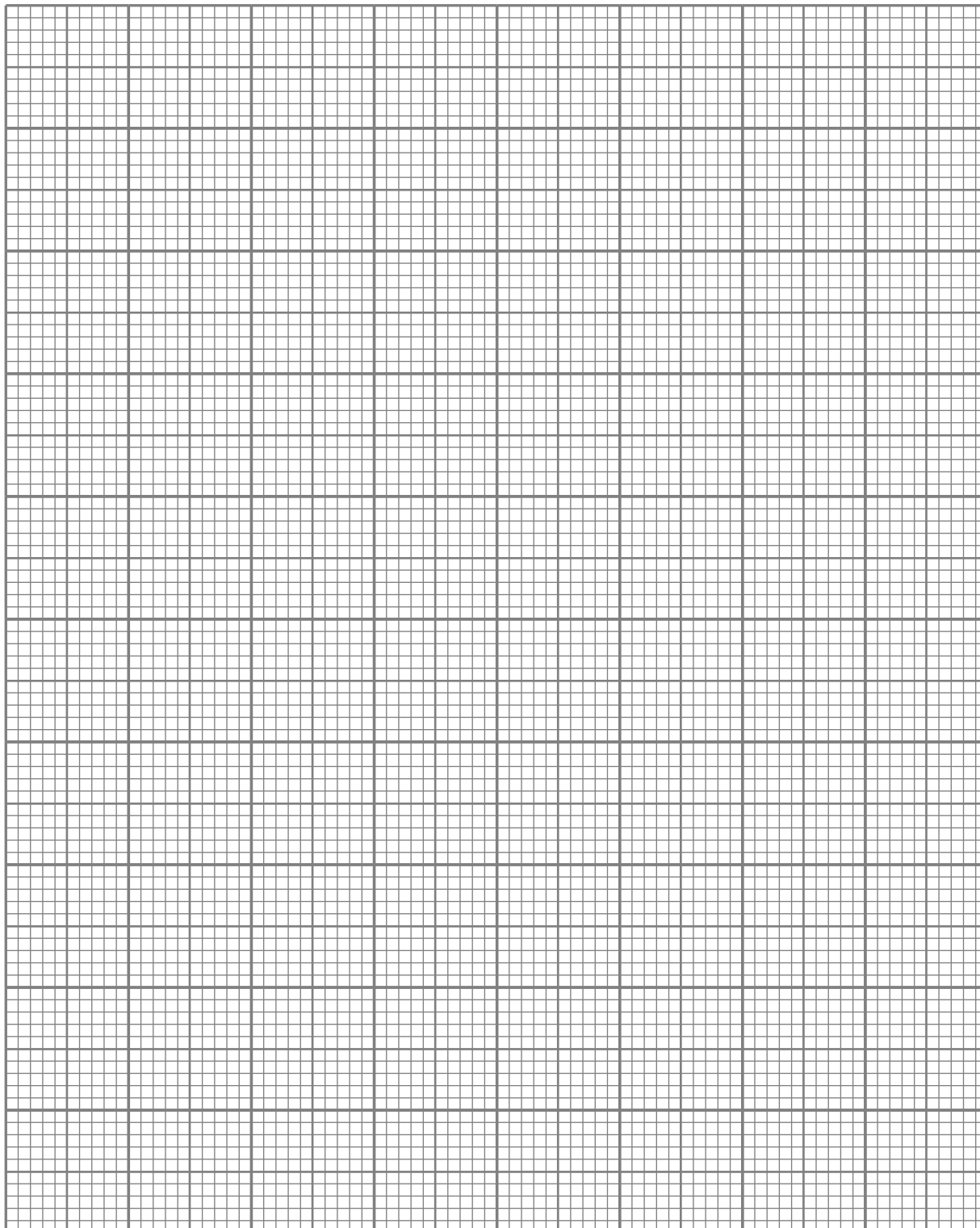
(5)

- c. The demand and supply schedules for folding chairs are shown in Table 2 below.

Table 2

Price	Quantity demanded	Quantity supplied
€	Folding chairs per week	Folding chairs per week
10	140	5
15	120	30
20	100	55
25	80	80
30	60	105
35	40	130

- i. Plot both the demand and supply curves in the space below with appropriate labelling on both axes. (3)



This question continues on next page.

ii. Assess the effect of a fall in the price of deckchairs on the equilibrium price and quantity of folding chairs.

[illegible]

d. Evaluate why it is useful for producers to know the value of the Price-Elasticity of Demand (PED) of their commodity.

(4)

(Total: 20 marks)

3. a. The values in Table 3 relate to the Maltese economy in 2025.

Table 3

Economic Indicator	€ (billions)
Investment (I)	3.0
Government Expenditure (G)	2.6
Exports (X)	4.8
Savings (S)	3.2
Taxation (T)	3.0
Imports (M)	4.0

- i. Using the data in Table 3, calculate the total injections and withdrawals in Malta's open economy.

(2)

- ii. Show whether the economy is currently in equilibrium.

(2)

- b. Consider your answer to part (a) and briefly evaluate what an imbalance between injections and withdrawals implies for national income.

(2)

This question continues on next page.

c. Evaluate the impact of the multiplier effect on the situation that you calculated in part b above.

[illegible]

d. In 2025, Malta's Real GDP is calculated at approximately €24.1 billion. With a population of 574,250, the Real GDP per capita is €41,968. Evaluate whether this figure is a perfect indicator of the well-being of a Maltese citizen.

(2)

e. Distinguish between economic growth and economic development, mention **THREE** key differences.

[illegible]

(Total: 20 marks)

4. a. How does the price paid by American customers for Maltese exports change, if there is a fall in the value of the Euro?

_____ (1)

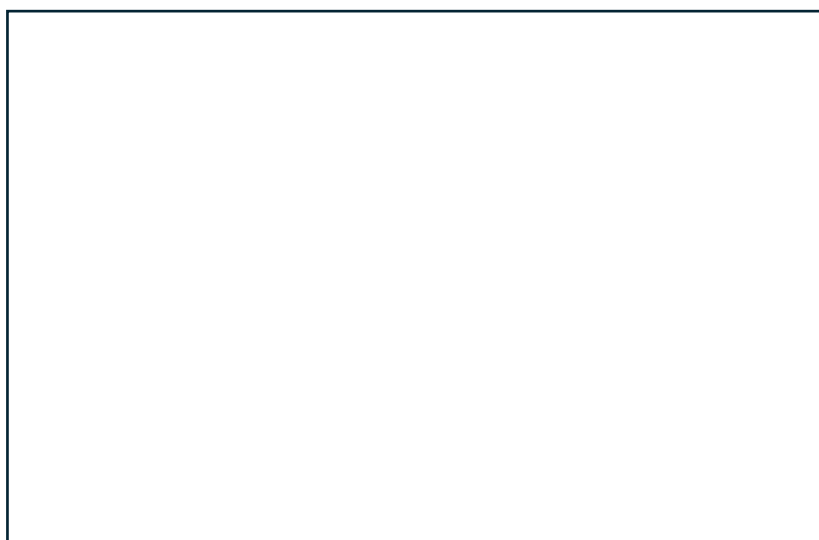
- b. If the exchange of the euro against the US dollar has fallen from \$1.10 to \$1.05 to the euro over year, calculate the impact of this change of a €1,000 service package for a US buyer before and after the depreciation.

_____ (3)

- c. List **ONE** reason affecting this depreciation of the currency.

_____ (1)

- d. The Maltese euro is traded on the foreign exchange (forex) market against the US dollar (\$). Sketch a linear demand and supply curve for euro in the forex market in the space provided.



(3)

This question continues on next page.

e. Rivenvale is an island exporting digital services, wine and medical devices, while importing energy, food and machinery. In recent years, its exports have risen due to improved technology and training, but a surge in energy prices has widened its import bill.

i. Assess **TWO** benefits arising from Rivenvale's participation in international trade.

(4)

ii. Give **TWO** reasons for the recent deficit on Rivenvale's balance of trade.

(4)

iii. Assess **ONE** effect on Rivenvale's equilibrium exchange rate of an increase in exports of digital services to other countries in Europe.

(2)

iv. Rivenvale is considering joining a monetary union with its neighbouring countries. Discuss **ONE** possible advantage for Rivenvale of adopting a single currency within this union.

(2)

(Total: 20 marks)

5. a. According to the National Statistics Office Malta (2025), as at end of 2024, 18.4% of Malta's population were aged 65 and over. Show **TWO** ways how an ageing population may be a strain on government expenditure.

(4)

- b. Explain **FOUR** main types of government tax revenue and give an example of **each**.

(4)

- c. Elaborate on the role of the European Central bank (ECB) in taking monetary policy decisions to maintain price stability.

(4)

- d. Compare and contrast **TWO** main roles of credit institutions and the Central Bank of Malta.

(4)

This question continues on next page.

e. In the 2025 Malta Budget, the government announced that total revenue is projected at €7.5 billion and expenditure at €8.0 billion and public debt expected to reach 50.1% of GDP. (Source: PwC Malta, Economic Highlights – Budget 2025)

- i. From the given data, calculate the difference between the expected revenue and expenditure and indicate if it is a budget deficit or surplus.

(2)

- ii. Evaluate in simple terms what this budget balance means for the government and the country.

(2)

(Total: 20 marks)