

MATRICULATION AND SECONDARY EDUCATION CERTIFICATE EXAMINATIONS BOARD

UNIVERSITY OF MALTA, MSIDA

MATRICULATION EXAMINATION
INTERMEDIATE LEVEL
SEPTEMBER 2014

SUBJECT: ECONOMICS
DATE: 5th September 2014
TIME: 4.00 p.m. to 7.00 p.m.

Answer **ALL** questions from **Section A** in short answer form and any **THREE** questions from **Section B** in long answer form.

Section A carries a total of 40% of the final grade and Section B carries a total of 60% of the final grade.

Section A (40 marks)

Answer **ALL** questions in this Section. Answers must be brief and to the point. Each question carries 5 marks.

1. With the help of an example, explain the concept of opportunity cost.
2. What is the difference between goods that are complements and those that are substitutes? Illustrate with examples.
3. What are the determinants of the supply of agricultural goods? What are the determinants of the supply of teaching services?
4. What are the different types of government spending, and how do these feature in the circular flow of income?
5. What do we mean when we say the labour force is at full employment?
6. What is the difference between a government's deficit and its debt?
7. Explain the different measures of money supply, the M0, M1, M2 and M3.
8. How are the equilibrium rates of exchange determined in floating currency markets?

Section B (60 marks)

Answer any **THREE** questions in detail. Each question carries 20 marks.

9. (a) With the use of appropriate examples and diagrams, explain how price elasticity of supply is measured. (10 marks)
(b) Is the supply price elasticity of agricultural goods, such as potatoes, elastic or inelastic? What are the implications on the equilibrium price following an increase in the demand for an agricultural good? (10 marks)
10. (a) Private firms often do not take into consideration external costs of production such as pollution. Discuss why. (5 marks)
(b) Discuss methods for internalising external costs and benefits. (15 marks)
11. (a) Explain and graphically illustrate how the equilibrium level of national income is determined. (10 marks)
(b) Explain the relationship between consumption and national income. (10 marks)
12. (a) Distinguish between voluntary and involuntary unemployment. (8 marks)
(b) Explain how inflation is measured. What are the economic implications of high inflation? (12 marks)
13. (a) Explain two methods of calculating GDP, a key indicator of economic development. (12 marks)
(b) Explain the role of international institutions such as the International Monetary Fund and World Bank in assisting developing countries. (8 marks)