

**MATRICULATION AND SECONDARY EDUCATION CERTIFICATE EXAMINATIONS BOARD**  
**UNIVERSITY OF MALTA, MSIDA**  
**MATRICULATION EXAMINATION**  
**INTERMEDIATE LEVEL**  
**MAY 2015**

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<b>SUBJECT:</b>	ECONOMICS
<b>DATE:</b>	19 <sup>th</sup> May 2015
<b>TIME:</b>	9.00 a.m. to 12.00 noon

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Answer **THREE questions from Section A** and **THREE** questions from **Section B**.

Section A and Section B each carry a total of 50% of the final grade. The paper is marked out of 120 marks.

**Section A** (60 marks)

Answer **THREE** questions in detail from this Section. Each question carries 20 marks.

1. (a) Discuss the concept of scarcity and how this is related to choice and opportunity cost. (8 marks)
- (b) What is the difference between consumer and capital goods? (8 marks)
- (c) Use the production possibility boundary to illustrate how a firm can increase production. (4 marks)
  
2. (a) Distinguish between specialisation by product and specialisation by process. (7 marks)
- (b) Referring to examples from the Maltese economy, explain the three levels of production. (8 marks)
- (c) Explain the role of profit in production. (5 marks)
  
3. (a) Explain the following concepts using diagrams to illustrate your answer:  
 Price elasticity of demand  
 Income elasticity of demand  
 Cross elasticity of demand (13 marks)
- (b) What is the importance of these concepts to producers and government? (7 marks)
  
4. (a) Define perfectly competitive markets and monopolies. Explain each one in detail and compare and contrast the two markets. (12 marks)
- (b) What is price discrimination? Use an example to explain your answer. (8 marks)
  
5. (a) Define productive and allocative efficiency in a competitive market. (10 marks)
- (b) Explain the concept of market failure giving at least three examples where this phenomenon occurs. (10 marks)

**Section B** (60 marks)

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

6. (a) Explain the term Gross Domestic Product and its importance as an indicator of economic growth. (6 marks)
- (b) What is the difference between nominal and real GDP? (4 marks)
- (c) Explain the main factors that lead to economic growth. (10 marks)
7. (a) Explain the term monetary policy and the objective of the policy. (6 marks)
- (b) What is the function of the European Central Bank? (7 marks)
- (c) In a period of low economic growth and low inflation would you expect the ECB to lower interest rates? Explain why. (7 marks)
8. (a) Explain two different types of unemployment that may typically exist in an economy. (6 marks)
- (b) Identify at least two economic effects of unemployment. (8 marks)
- (c) Explain why low inflation could have negative effects on the economy. (6 marks)
9. (a) What are the main components of fiscal policy? (8 marks)
- (b) Trace the effects of an increase in taxation on economic activity. (7 marks)
- (c) In light of the recent recession in the EU, should EU governments continue to run a deficit to stimulate economic growth? Give reasons for your answer. (5 marks)
10. (a) Explain the main elements of the Balance of Payments. (7 marks)
- (b) How does an increase in the current account deficit affect the equilibrium output through the aggregate demand curve? (8 marks)
- (c) If the euro were to continue depreciating against the US dollar, what would you expect to happen to the balance of the current account in the euro area? (5 marks)