

MATRICULATION AND SECONDARY EDUCATION CERTIFICATE EXAMINATIONS BOARD
UNIVERSITY OF MALTA, MSIDA
MATRICULATION EXAMINATION
INTERMEDIATE LEVEL
MAY 2016

SUBJECT: ECONOMICS
DATE: 10th May 2016
TIME: 9:00 a.m. to 12:05 p.m.

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.

Question 1

- Using graphs explain what the demand curve and supply curve for smart phones represent. (4 marks)
- What are the non-price determinants of supply of smart phones? How are changes in these non-price determinants represented within a diagram? (10 marks)
- Explain the concept of 'producer surplus' and display it using a diagram. How would the producer surplus enjoyed by the company producing smart phones change if they were able to decrease the cost of production of smart phones by relocating their factories to a lower-cost country? (6 marks)

Question 2

- With the use of a diagram, define the concept of 'price floors'. Using an example explain the consequences of a price floor. (10 marks)
- With the use of a diagram, define the concept of 'price ceilings'. Using an example explain the consequences of a price ceiling. (10 marks)

Question 3

- Explain the concept of 'price elasticity of demand'. How is it calculated? Using diagrams show examples of two goods with different types of elasticity. (8 marks)
- Why is the concept of price elasticity of demand important in economics? (8 marks)
- Using the concept of price elasticity of demand, explain the effect of an increase in the tax on cigarettes? (4 marks)

Question 4

- Using examples, explain the difference between static and dynamic efficiency. (5 marks)
- What is the difference between allocative and productive efficiency? (5 marks)
- What is market failure? Explain two types of market failure using real examples. (10 marks)

Question 5

- a) Define 'public goods' using appropriate examples. How are these different from private goods? (8 marks)
- b) What are 'merit goods'? Give two examples of merit goods and identify the main beneficiaries of the merit goods you have selected. (6 marks)
- c) Why would the government choose to intervene in the markets for merit goods? (6 marks)

Section B (60 marks)

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

Question 6

- a) Explain the difference in the approaches used to estimate national income through the output and income approach. (10 marks)
- b) Explain the main difficulties encountered in measuring national income. (10 marks)

Question 7

- a) Explain the main factors that influence investment in an economy. Give some practical examples. (15 marks)
- b) Define the term 'marginal efficiency of capital'. (5 marks)

Question 8

- a) Interest rates are currently at a very low level. Explain why is this so in the context of the euro zone's monetary policy. (10 marks)
- b) Explain the role of a Central Bank in the context of the European Monetary System. (10 marks)

Question 9

- a) Explain the main components of fiscal policy. (10 marks)
- b) Trace the channels of expansionary fiscal policy on the economy through prices, income and employment. (10 marks)

Question 10

- a) Define the term 'economic growth' and explain the business cycle and its relationship to economic growth. (10 marks)
- b) What are the main types of unemployment? Briefly explain the main causes for each type of unemployment. (10 marks)