

MATRICULATION AND SECONDARY EDUCATION CERTIFICATE EXAMINATIONS

BOARD UNIVERSITY OF MALTA, MSIDA

MATRICULATION  
EXAMINATION  
INTERMEDIATE LEVEL  
SAMPLE PAPER

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SUBJECT: ECONOMICS  
DATE: SAMPLE PAPER  
TIME: 3hrs 5 mins

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**Answer FIVE questions in total. This paper carries a total of 100 marks.**

**The Question in Section A is COMPULSORY.**

**Choose TWO questions from Section B and TWO questions from Section C.**

### Section A – Compulsory Question

Study the extract below and answer the questions that follow.

#### Question 1

**A rapidly rising, super-cheap Irish clothes retailer prepares to conquer America. Rivals should be fearful.**

Staff line a wide aisle, cheering. Blue balloons bob in anticipation. Then the doors open and throngs of women rush in, clutching shopping bags to gather up their bounty - dresses, jumpers, shoes and other treasure. The scene, captured in a video of a store opening in France last year, is common for Primark - the company dubs such exuberance “Primania”. The Irish retailer, owned by Associated British Foods (ABF), now sells more clothes than any other retailer in Britain.

Nevertheless, ABF, which also sells sugar, tea and Ovaltine, has reason to be optimistic. For many shoppers, Primark has an irresistible offer: trendy clothes at astonishingly low prices. The result is a new and even faster kind of fast fashion, which encourages consumers to buy heaps of items, discard them after a few wears and then come back for another batch of new outfits.

As some clothing chains have suffered, the world’s four largest brands have cemented their lead by pursuing different strategies. Two American retailers, T.J. Maxx and Ross, sell discounted items bearing designer labels, usually from previous seasons. Two European retailers, H&M and Zara, sell own-label clothes in the latest styles, constantly updating their ranges. Zara remains the leading innovator in fast fashion, introducing more than 18,000 designs each year and producing them within an average of three weeks.

John Bason, ABF’s finance director, says Primark achieves its low prices thanks to sleek logistics, a meagre marketing budget and its *economies of scale*, which help win bargains from suppliers. The company withstands tiny margins, making its money on volume. It has bet successfully that *demand* for clothes is as elastic as the waistband in a pair of plus-size sweatpants: the cheaper they are, the more shoppers buy of them. It is also benefiting from the “Instagram effect”, in which fashion-conscious young consumers post snaps of themselves wearing another new outfit on social media.

[Source: Adapted from ‘Primark. Faster, cheaper fashion’ The Economist, September 5<sup>th</sup> 2015]

- a) Define the term demand. (2 marks)
- b) Define the term economies of scale. (2 marks)
- c) The extract explains that the demand for clothes is elastic. What do you understand by this and explain why this is so. (4 marks)
- d) Brands such as Primark quote economies of scale as being one of their key advantages. What are internal economies of scale and how do they constitute an advantage to such firms? (4 marks)
- e) The article mentions the existence of four leading brands. Assuming that these brands command a high concentration ratio in the industry, which type of market structure would you associate this to? Evaluate the possible advantages and disadvantages of such a market structure to consumers and the clothing industry. (8 marks)

## **Section B - Microeconomics**

### **Choose any two questions.**

- 2 a Explain the difference and the causes producing a shift of and a movement along the demand curve. (8 marks)
  - b. Discuss the possible effects of the following factors on the equilibrium price and quantity for hybrid cars;
    - i. an increase in the price of diesel and petrol.
    - ii. a rebate given by government to people who purchase new hybrid cars.
    - iii. new battery technology making hybrid cars cheaper to produce.
    - iv. an advertising campaign aimed at illustrating the benefits of hybrid car ownership. (12 marks)
- 3 a Explain why perfect competition is assumed to be the most efficient market structure in terms of allocative and productive efficiency. (8 marks)
  - b. Discuss the possible advantages and disadvantages of having a natural monopoly providing a utility service such as water provision. (12 marks)
- 4 a In what way do negative externalities of production and consumption represent a case of market failure? (10 marks)
  - b. Evaluate government intervention as a means of mitigating the externalities generated through negative externalities of production and consumption. (10 marks)

- 5 a. Distinguish between diminishing returns and the decreasing returns to scale. (6 marks)
- b. Explain the relationship between marginal product, the average product and the total product. (6 marks)
- c. With reference to a firm of your choice discuss the possible advantages and disadvantages of growth. (i.e internal economies and diseconomies of scale). (8 marks)

### Section C – Macro-economics

#### Choose any two questions

6. a. Explain how the level of economic activity can be measured using the income, the expenditure and the output approaches. (12 marks)
- b. Discuss why an improvement in GDP figures does not necessarily equate to an improvement in standard of living. (8 marks)
7. a. Explain the relationship between disposable income and household consumption expenditure. (8 marks)
- b. Using an aggregate demand/aggregate supply diagram, explain how the following factors would influence the general price level and the level of national output (or real GDP) in an economy;
- i. an increase in the minimum wage;
  - ii. a weaker currency;
  - iii. the introduction of expansionary monetary policy leading to lower interest rates. (12 marks)
8. a. Discuss three ways through which the government of a country may increase the labour force participation rate. (6 marks)
- b. Evaluate the possible consequences of unemployment and suggest three supply-side policies through which a government may reduce unemployment rates in an economy. (14 marks)
9. a. Explain how the theory of the Phillips curve may be used to explain why it is often thought that a low level of unemployment makes an inflationary outburst inevitable. (8 marks)
- b. Explain three possible causes of cost push inflation and suggest ways how such inflation may be reduced. (12 marks)