

MATRICULATION AND SECONDARY EDUCATION CERTIFICATE EXAMINATIONS BOARD
UNIVERSITY OF MALTA, MSIDA

MATRICULATION EXAMINATION
INTERMEDIATE LEVEL
MAY 2014

SUBJECT:	ECONOMICS
DATE:	20th May 2014
TIME:	9.00 a.m. to 12.00 noon

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% and Section B carries a total of 60%.

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 diagrams and one example, explain the concepts depicted by the production possibility curve.
2. What is conspicuous consumption and why is it a relevant concept to economists?
3. What are the determinants of the price elasticity of supply?
4. With the help of diagrams, explain how the interaction between the supply of a good and the demand for a good results in an equilibrium. Explain the concepts of equilibrium and disequilibrium.
5. What are the main components of Aggregate Demand?
6. What is the difference between the Marginal Propensity to Consume and the Average Propensity to Consume?
7. Explain the different types of exchange rate regimes.
8. Explain the role of a Central Bank in the context of the European Monetary System.

Section B (60 marks)

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

9. (a) Discuss two factors that determine the demand for electricity. (6 marks)
- (b) Briefly explain two methods of internalising the external costs associated with the production of electricity. (6 marks)
- (c) Explain, with the help of diagrams, the implications of the imposition of a price ceiling on the price of electricity to ensure affordability. (8 marks)
10. (a) Describe the main characteristics of a monopoly and provide examples of monopolies in Malta. (10 marks)
- (b) Provide economic arguments for and against the privatisation of natural monopolies. (10 marks)
11. (a) Describe the main fiscal revenue tools at the disposal of government and the expected effect of taxes on the economy. (10 marks)
- (b) How does a government finance a budget deficit? (6 marks)
- (c) Can a government run a large budget deficit indefinitely? (4 marks)
12. (a) Does international trade always benefit countries? (8 marks)
- (b) Distinguish between the current and capital account of the balance of payments. Does the account always balance? (6 marks)
- (c) Does a currency devaluation improve the balance of payments? (6 marks)
13. (a) What are the different methods of measuring national income? (10 marks)
- (b) Is it possible for nominal GDP to increase and for real GDP to decline? (6 marks)
- (c) What do you understand by the term full employment? (4 marks)